

INTERNAL AUDIT STRATEGY AND PLAN 2016-17

1 Purpose

- 1.1 The purpose of this report is to provide the committee with details of the internal audit risk assessment and plan for 2016-17.

2 Recommendations

- 2.1 The committee is recommended to approve the Internal Audit Strategy and Plan for 2016-17 attached at Appendix 1.

3 Supporting Information

- 3.1 The methodology applied in developing the Internal Audit Strategy and Plan has been updated for 2016-17. A full assessment of the “Audit Universe” has been performed. Each auditable unit has been risk assessed at a high level to determine the priority for internal audit, represented by the frequency of audit review.
- 3.2 As part of the Commercial AVDC Transformation Programme a number of “Business Reviews” are being undertaken across the Council. Where these have been defined, we have identified these in the risk assessment. Commercial AVDC reviews and projects may provide additional assurance. Internal Audit will review the scope of these projects and the outcomes and update the risk assessment accordingly.
- 3.3 Should further internal audit work be required as a result of emerging risks highlighted during the Commercial AVDC Business Reviews, the annual plan will be updated to accommodate this work.
- 3.4 The work plan has been discussed with Directors and Sector Leads to obtain their views and take into account any areas they specifically identified as areas to review.
- 3.5 The core financial systems areas and housing benefits and collection fund remain on the list each year but the scope of the reviews will be tailored to look at different areas of risk each year as well as the core key controls.
- 3.4 The Internal Audit Plan will be reviewed on a quarterly basis to allow for flexibility to pick up new areas of risk or organisational change. This will be reported to the committee as part of the progress report.

4 Options considered

- 4.1 None

5 Reasons for Recommendations

- 5.1 The Internal Audit Strategy and Plan fulfils requirements of the Public Sector Internal Audit Standards which came into force on 1 April 2013.

6 Resource Implications

- 6.1 The plan will be delivered within current resources. Where reviews require specialist expertise this may be sourced from external providers, within the allocated financial budget.

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Background papers: none



Internal Audit Strategy and Plan 2016/17

**Business Assurance Services
March 2016**

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1. Introduction and approach

Introduction

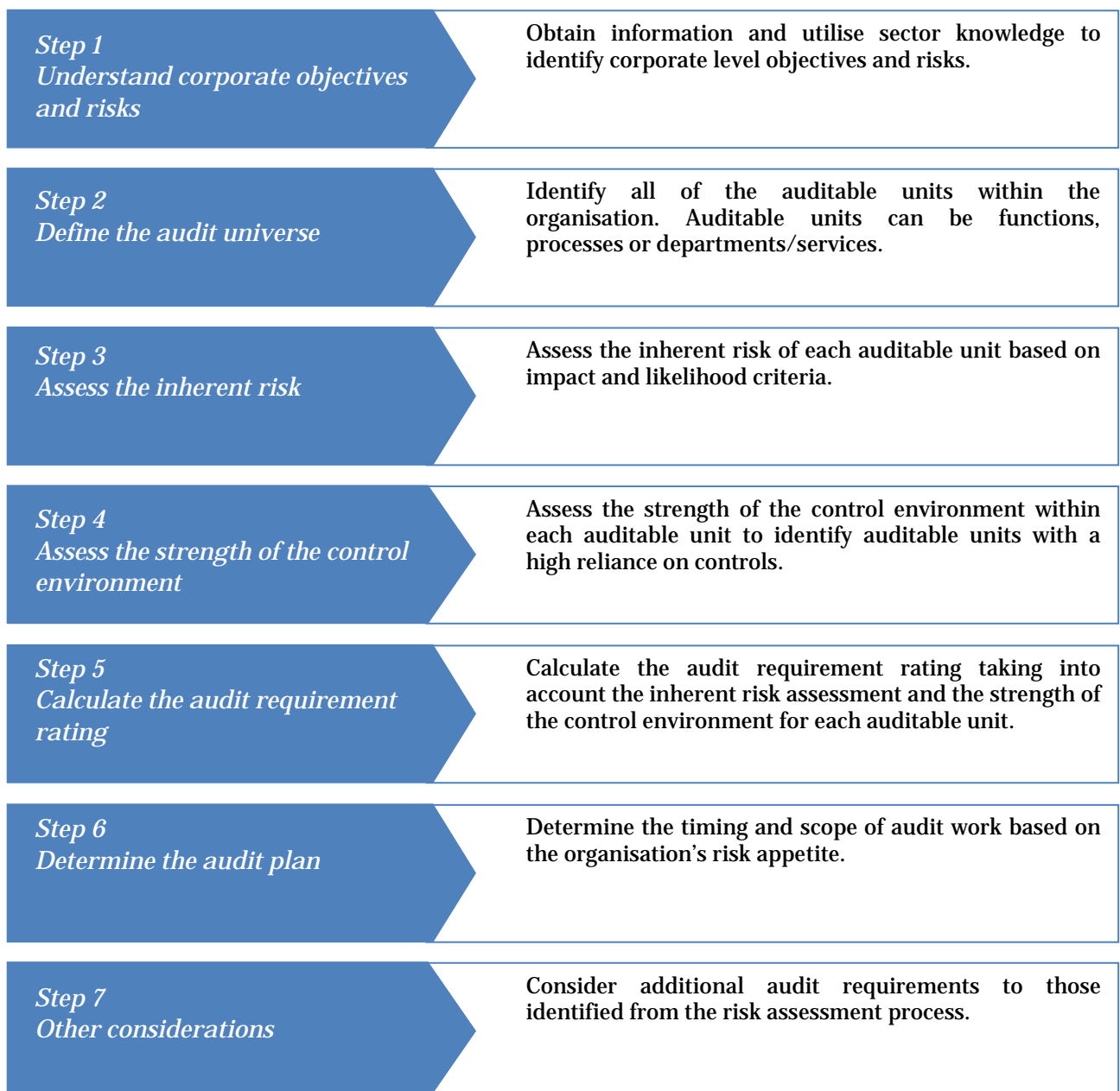
This document sets out the risk assessment and 2016/17 internal audit plan for Aylesbury Vale District Council (AVDC).

Approach

The internal audit service will be delivered in accordance with the Internal Audit Charter and the Public Sector Internal Audit Standards.

A summary of our approach to undertaking the risk assessment and preparing the internal audit plan is set out below. The internal audit plan is driven by the Council's organisational objectives and priorities, and the risks that may prevent the Council from meeting those objectives. A more detailed description of our approach can be found in Appendix 1 and 2.

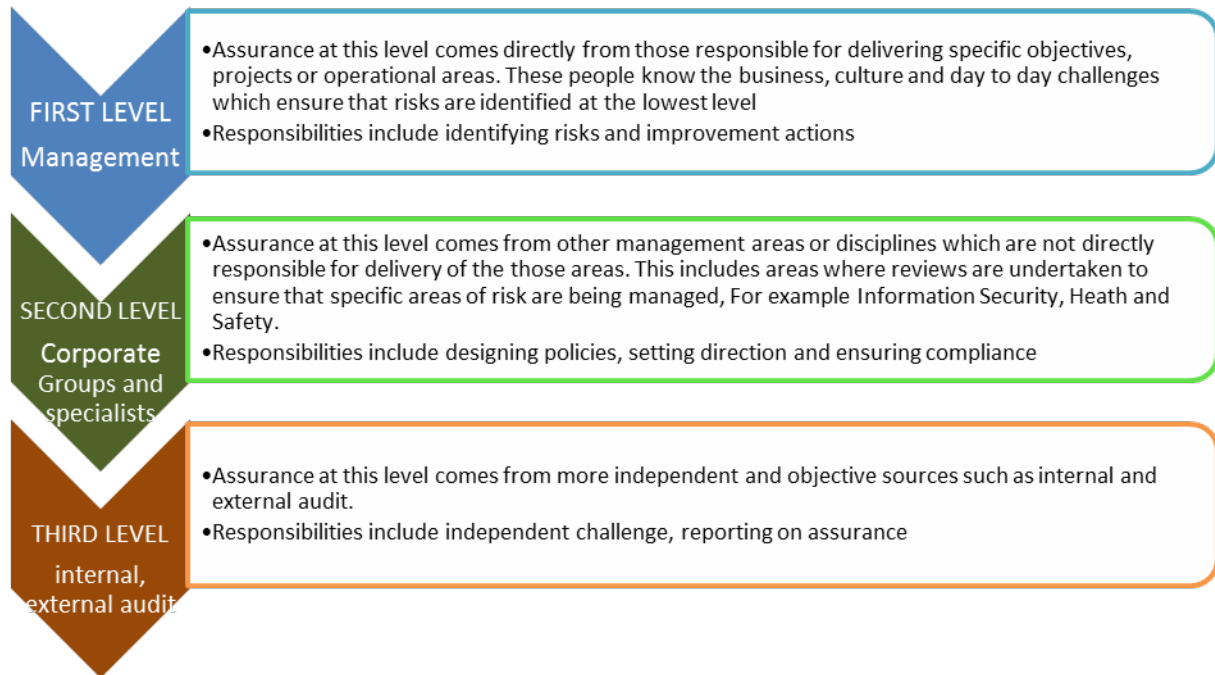
In developing our internal audit risk assessment and plan we have taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the audit universe and key risks.



Other sources of assurance

Assurance can come from numerous sources within the Council. In developing our internal audit risk assessment and plan we have taken into account other sources of assurance and have considered the extent to which reliance can be placed upon these other sources.

There are broadly three main categories of assurance modelled below and by working towards defining these across areas of risk it will help the Council understand how each contributes to the overall level of assurance and how best they can be integrated and mutually supportive.



Level 3 is undertaken by the Internal Audit team and other independent external or regularity auditors.

The other sources of assurance for the Council in 2016/17 may include the reviews being undertaken as part of the Commercial AVDC change programme. These are overseen by the Commercial AVDC Programme Board. In order to place reliance on these other sources of assurance we will review the terms of reference and the final reports and action plans. We may perform work to ensure the actions are appropriately implemented.

Commercial AVDC reports and action plans may be shared with the Audit Committee to inform the ongoing risk assessment.

Key contacts

The internal audit plan has been discussed with the following members of the Senior Management team and the Transition Board during the planning process:

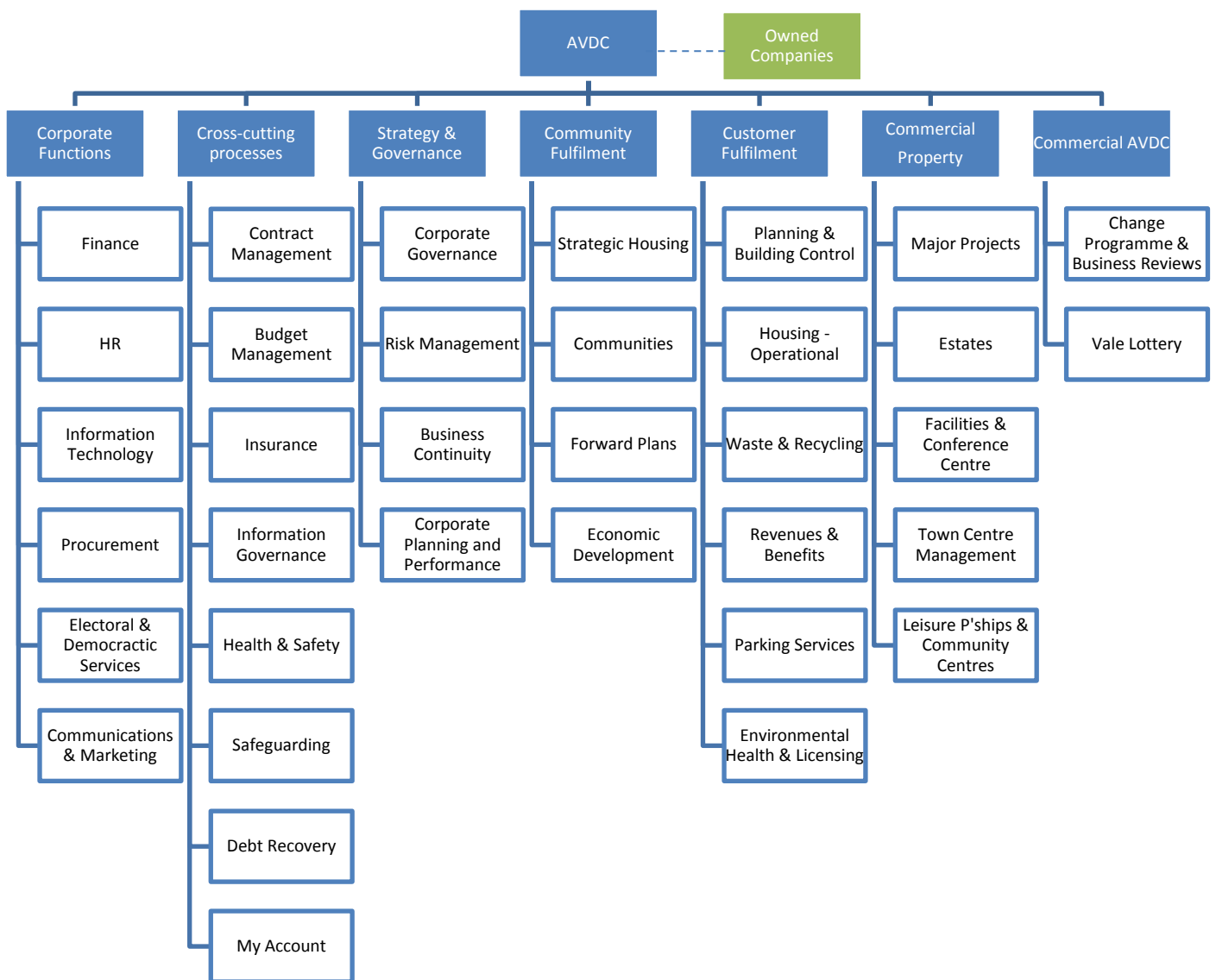
<i>Name</i>	<i>Title</i>
Andrew Grant	Chief Executive
Andrew Small	Director
Tracey Aldworth	Director
Alan Evans	Head of Business Transformation
Andy Barton	Strategy & Governance
Sarah Rodda	Business Support and Enablement
Teresa Lane	Commercial Property
Jeff Membery	Customer Fulfilment
Will Rysedale	Community Fulfilment
Jean Gamester	Commercial AVDC Programme Manager

2. Audit universe, objectives and risks

Audit universe

We have identified the auditable units with the Council based on the structure as of February 2016 and consideration of processes that run across a number of different areas of the Council (cross-cutting processes).

As part of the Commercial AVDC transformation programme, the services are undergoing review which may result in changes to the structure and auditable units. The internal audit plan should be flexible to adapt to these changes.



* AVDC owned companies - Vale Commerce (LimeCart & IncGen), Novae Consulting, Aylesbury Vale Broadband, Aylesbury Vale Estates

Corporate objectives and risks

Corporate level objectives and risks have been considered when preparing the internal audit plan.

Objective	Risk(s) to achievement of objective	Cross reference to Internal Audit Plan
To secure the Economic, Social and Environmental Wellbeing of the Vale	To be updated	

3. Risk assessment

Risk assessment results

Each auditable unit has been assessed for inherent risk and the strength of the control environment, in accordance with the methodology set out in Appendix 1 and 2. The results are summarised in the table below.

Ref	Auditable Unit	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency	Comments (incl. other sources of assurance)
A	Corporate Functions						
	Finance <ul style="list-style-type: none"> • General Ledger • Debtors • Creditors • Payroll • Treasury • Fixed Assets 	6	1	6	●	Annual	Commercial AVDC review of Financial Services, Process & Systems including control design for all financial systems starting Feb 2016. IA are involved in the project and will review implementation and operation of processes once established.
	HR	4	3	3	●	2 years	2016/17 review of recruitment process
	IT	5	3	4	●	Annual	Consider outcome of Commercial AVDC review of role, form & function of IT service.
	Procurement	4	3	3	●	2 years	Consider with Contract Management
	Electoral & Democratic Services	3	3	2	●	3 years	Roll out of ModGov – review processes post implementation
	Communication & Marketing	3	3	2	●	3 years	
B	Cross-Cutting Processes						
	Contract Management	5	2	4	●	Annual	Commercial AVDC review of lifecycle management of contracts from procurement through ongoing management. 15/16 review of Supplier Resilience to be completed 16/17
	Budget Management	6	2	5	●	Annual	Consider outcomes of Commercial AVDC Finance review
	Insurance	5	4	3	●	2 years	Tender process to start Q2. Claims handling is audited by Travellers Insurance (date TBC)
	Information Governance	6	3	5	●	Annual	IT Security and/or Information Governance review.
	Health & Safety	6	4	4	●	Annual	Last audit in 2010/11. 2016 IA against OHSAS 18001 (45001 from 2018)
	Safeguarding	5	4	3	●	2 years	Review deferred from 15/16. Assurance also from external audits e.g. Sec 11
	Debt Recovery	4	3	3	●	2 years	Review in Q3 2016/17 to inform Commercial AVDC business reviews

Ref	Auditable Unit	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency	Comments (incl. other sources of assurance)
	My Account	5	3	4	●	Annual	Review security of payments, information and interfaces with other systems
C	Strategy & Governance						
	Corporate Governance	4	2	3	●	2 years	New Good Governance Framework for Local Government effective from 1 Apr 16. Review compliance gaps.
	Risk Management	5	1	5	●	Annual	Continuous assurance over risk management processes
	Business Continuity	5	4	3	●	2 years	
	Corporate Planning & Performance	5	2	4	●	Annual	Commercial AVDC review of Business Intelligence will recommend on Performance Monitoring and Reporting processes. IA consider review of outcomes.
D	Community Fulfilment						
	Strategic Housing	5	4	3	●	2 years	16/17 consider review of housing grants
	Communities	5	4	3	●	2 years	Commercial AVDC review of Communities
	Forward Plans	5	4	3	●	2 years	
	Economic Development	5	4	3	●	2 years	16/17 review of Enterprise Zones
E	Customer Fulfilment						
	Planning & Building Control	5	4	3	●	2 years	Sec 106 reviewed in 15/16. 17/18 review to consider Government consultations.
	Housing – Operational	4	4	2	●	3 years	IA of Housing Allocations in 15/16
	Waste & Recycling	6	2	5	●	Annual	Commercial AVDC review of Waste
	Revenues & Benefits • Collection Fund • Housing Benefits	6	4	4	●	Annual	
	Parking Services	4	4	2	●	3 years	New contract in place in 2015. Consider in 17/18
	Environmental Health & Licensing	5	4	3	●	2 years	
F	Commercial Property						
	Major Projects	5	4	3	●	2 years	Major Project Board provides oversight of significant capital projects
	Estates	5	2	4	●	Annual	Commercial AVDC Business Review planned to assess adequacy of

Ref	Auditable Unit	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency	Comments (incl. other sources of assurance)
							processes to manage landlord/tenant arrangement. IA input to scope of project and review of calculation of service charges.
	Facilities & Conference Centre	5	4	3	●	2 years	
	Town Centre Management	4	4	2	●	3 years	
	Leisure P'ships & Community Centres	5	4	3	●	2 years	17/18 consider Aqua Vale Pool
G	Commercial AVDC						
	Change Programme and Business Reviews	6	4	4	●	Annual	Commercial AVDC Programme Board maintain oversight of Programme Risk register and monitoring of Business Reviews.
	Vale Lottery	4	3	3	●	2 years	16/17 Internal audit review ahead of Gambling Commission Audit

Key to frequency

Audit Requirement Rating	Frequency	Colour Code
6, 5 and 4	Annual	●
3	Every two years	●
2	Every three years	●
1	No further work	●

4. Annual internal audit plan

Annual plan and indicative timeline

The internal audit work planned for 2016/17, together with indicative start dates for each audit.

Ref	Auditable Unit	Indicative number of audit days	Planned start date				Comments
			Q1	Q2	Q3	Q4	
A	Corporate functions						
	Finance <ul style="list-style-type: none"> General Ledger Debtors Creditors Payroll Treasury Fixed Assets 	36	X	X	X	X	Ongoing input to Commercial AVDC project (Q1&Q2) and assurance over implementation and effectiveness of processes (Q3 &Q4)
	HR - Recruitment	6		X			Review recruitment processes and controls
	Electoral & Democratic Services	5			X		Deferred from 15/16. Roll out of ModGov – review processes post implementation
B	Cross-cutting processes						
	Contract Management – Supplier Resilience	10		X			Deferred from 15/16. Assurance that key suppliers/contracts have adequate business continuity plans in place. Consider outcomes of Commercial AVDC review.
	Budget Management	8				X	
	Information Governance	12		X			IT Security or Information Governance review.
	Health & Safety	12		X			Compliance with OHSAS18001
	Safeguarding	8	X				Review pre Sec 11 audit. Also consider vulnerable adults.
	Debt Recovery	6			X		
	My Account	10		X			Review security of payments, information and interfaces with other systems
C	Strategy & Governance						
	Good Governance Framework for Local Government	6	X				Review compliance with new CIPFA code and implications for AGS 16/17
	Risk Management	12	X	X	X	X	Continuous assurance over risk management process
D	Community Fulfilment						

	Enterprise zones	8			X		Processes governing management of E Z partnerships
E	Customer Fulfilment						
	Housing benefits	6				X	
	Collection fund	8				X	
F	Commercial Property						
	Estates – Service Charges	8		X			Basis for and calculation of service charges, collection processes
G	Commercial AVDC						
	Business Reviews	10	X	X	X	X	See below
	Vale Lottery	6	X				
H	Other						
	Follow up of audit actions	8	X	X	X	X	Validation that agreed internal audit actions have been implemented.
	Completion of 15/16 internal audit plan <ul style="list-style-type: none"> • General Ledger & Budget Control • Housing Benefits 	10	X				
	Total planned audit days	195					
	Contingency for risk responsive reviews	20					
	Total	215					

Resourcing the plan

The majority of the plan will be delivered by the in house Internal Audit Officer. Where specialist input is required we may seek external resources for specific reviews.

Available Resource	
Internal Audit Officer (1FTE) - Days available	215
Budget for 2FTE vacant positions (Internal Audit Officer and Business Assurance Manager)	£100,000

Commercial AVDC Business Reviews

During 2016/17 a series of Business Reviews will be undertaken as part of the Commercial AVDC transformation programme. The outcomes of these reviews will recommend changes/improvements to current ways of working in line with the strategic vision of the Council.

Internal audit, whilst not necessarily involved in completing these reviews, will input into the scope of work, review outcomes and consider any impact this may have on the risk assessment.

At the time of preparing the internal audit plan, the following Commercial AVDC projects have been identified within the risk assessment:

- Financial Services, Processes and Systems
- IT – role, form and function
- Procurement and contract management lifecycle
- Business Intelligence
- Communities
- Estates – Landlord /Tenant management function
- Waste

The results of these projects and periodic updates from the Commercial AVDC Programme Board will be shared with the Audit Committee for their ongoing consideration of risk and assurance.

Appendix 1: Detailed methodology

Step 1 -Understand corporate objectives and risks

We have:

- Reviewed the strategy, organisational structure and corporate risk register;
- Considered the wider public sector and local government context; and
- Met with a senior management.

Step 2 -Define the Audit Universe

We have identified the audit universe made up of a number of auditable units. Auditable units include functions, processes, systems, departments or services. Any processes or systems which cover multiple departments are separated into their own distinct cross cutting auditable unit.

Step 3 -Assess the inherent risk

The internal audit plan should focus on the most risky areas of the Council. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise. The criteria used to rate impact and likelihood are recorded in Appendix 2.

The inherent risk assessment is determined by:

- Mapping the corporate risks to the auditable units;
- Our knowledge of the Council and the sector; and
- Discussions with management.

Impact Rating	Likelihood Rating					
	6	5	4	3	2	1
6	6	6	5	5	4	4
5	6	5	5	4	4	3
4	5	5	4	4	3	3
3	5	4	4	3	3	2
2	4	4	3	3	2	2
1	4	3	3	2	2	1

Step 4 -Assess the strength of the control environment

In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit. This is assessed based on:

- Knowledge of the internal control environment;
- Information obtained from other assurance providers; and
- The outcomes of previous internal audits.

Step 5 -Calculate the audit requirement rating

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas with high reliance on controls or a high residual risk.

Inherent Risk Rating	Control design indicator					
	1	2	3	4	5	6
6	6	5	5	4	4	3
5	5	4	4	3	3	n/a
4	4	3	3	2	n/a	n/a
3	3	2	2	n/a	n/a	n/a
2	2	1	n/a	n/a	n/a	n/a
1	1	n/a	n/a	n/a	n/a	n/a

Step 6 -Determine the audit plan

The risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

Step 7 -Other considerations

In addition to the audit work defined through the risk assessment process described above, we may undertake a number of other internal audit reviews such as regulatory driven audits or advisory reviews. These are identified separately in the annual plan.

Appendix 2: Risk assessment criteria

Determination of Inherent Risk

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

<i>Impact rating</i>	<i>Assessment rationale</i>
6	Critical impact on operational performance [quantify if possible]; or Critical monetary or financial statement impact [quantify = materiality]; or Critical breach in laws and regulations that could result in material fines or consequences [quantify if possible]; or Critical impact on the reputation or brand of the organisation which could threaten its future viability).
5	Significant impact on operational performance [quantify if possible]; or Significant monetary or financial statement impact [quantify = materiality/2]; or Significant breach in laws and regulations resulting in large fines and consequences [quantify if possible]; or Significant impact on the reputation or brand of the organisation.
4	Major impact on operational performance [quantify if possible]; or Major monetary or financial statement impact [quantify = materiality/4]; or Major breach in laws and regulations resulting in significant fines and consequences [quantify if possible]; or Major impact on the reputation or brand of the organisation.
3	Moderate impact on the organisation's operational performance [quantify if possible]; or Moderate monetary or financial statement impact [quantify = materiality/8]; or Moderate breach in laws and regulations with moderate consequences [quantify if possible]; or Moderate impact on the reputation of the organisation.
2	Minor impact on the organisation's operational performance [quantify if possible]; or Minor monetary or financial statement impact [quantify = materiality/16]; or Minor breach in laws and regulations with limited consequences [quantify if possible]; or Minor impact on the reputation of the organisation.
1	Insignificant impact on the organisation's operational performance [quantify if possible]; or Insignificant monetary or financial statement impact [quantify = materiality/32]; or Insignificant breach in laws and regulations with little consequence [quantify if possible]; or Insignificant impact on the reputation of the organisation.

<i>Likelihood rating</i>	<i>Assessment rationale</i>
6	Has occurred or probable in the near future
5	Possible in the next 12 months
4	Possible in the next 1-2 years
3	Possible in the medium term (2-5 years)
2	Possible in the long term (5-10 years)
1	Unlikely in the foreseeable future