Audit Committee
24 July 2017

INTERNAL AUDIT STRATEGY AND PLAN 2017-18

Purpose

1.1   The pupose of this report is to provide the committee with details of the internal audit risk assessment and plan for 2017-18.

2   Recommendations

2.1   The committee is recommended to approve the Internal Audit Strategy and Plan for 2017-18 attached at Appendix 1.

3   Supporting Information

3.1   Following the Commercial AVDC restructure, 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   Corporate level objectives and risks have been considered when preparing the internal audit plan.

3.3   Input has been obtained from Directors, Assistant Directors and Senior Managers to take into account any areas they specifically identified for review.

3.4   The core financial systems, housing benefits and collection fund remain on the list each year but the scope of the reviews can be tailored to look at different areas of risk each year as well as the key controls.

3.5   Additional areas of focus for 2017-18 are the key services delivered by Customer Fulfilment. This will provide assurance over the end-to-end processes following team restructures and system changes.

3.6   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 Head of Internal Audit (Corporate Governance Manager) is responsible for delivering the internal audit plan. Work will be performed by external service providers under a co-source arrangement, within the allocated budget. This allows for the flexibility, insight and innovation achieved through using suppliers who work with a rage of other public and private sector organisations, and also retains the desired level of proximity to AVDCs risks and priorities.

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Background papers: none

Internal Audit Strategy and Plan 2017/18

July 2017

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1. Introduction and approach
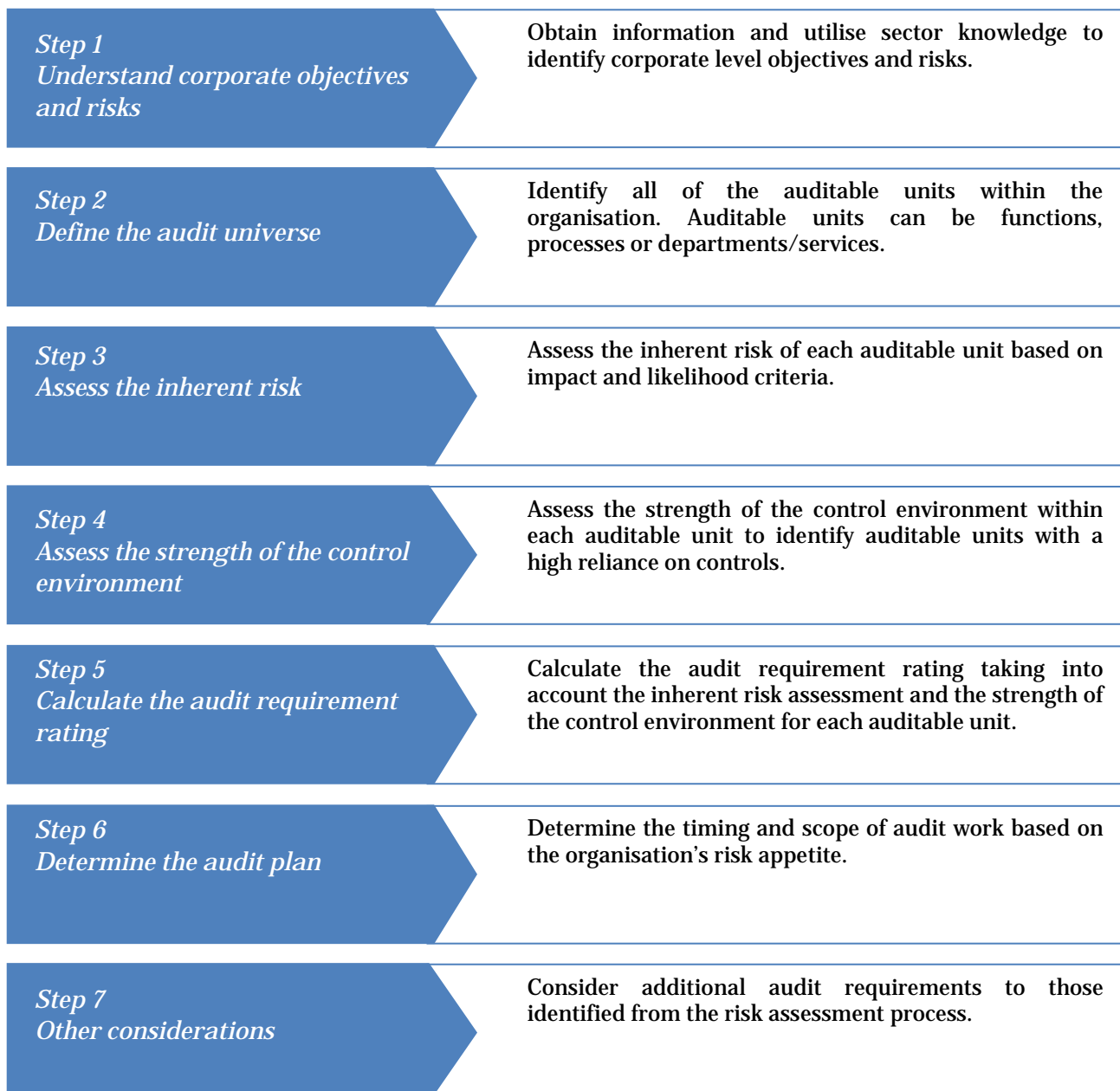
Introduction

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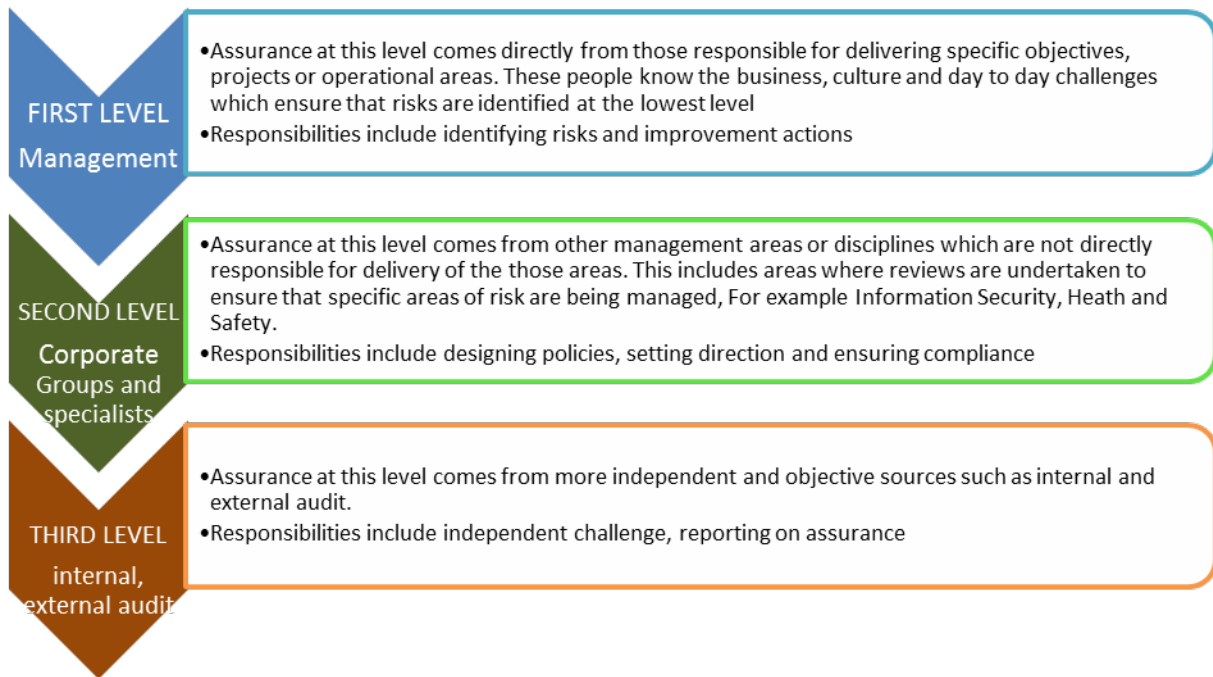
In developing the internal audit risk assessment and plan we have taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the audit universe and key risks.

Step 1 *Understand corporate objectives and risks*	Obtain information and utilise sector knowledge to identify corporate level objectives and risks.
Step 2 *Define the audit universe*	Identify all of the auditable units within the organisation. Auditable units can be functions, processes or departments/services.
Step 3 *Assess the inherent risk*	Assess the inherent risk of each auditable unit based on impact and likelihood criteria.
Step 4 *Assess the strength of the control environment*	Assess the strength of the control environment within each auditable unit to identify auditable units with a high reliance on controls.
Step 5 *Calculate the audit requirement rating*	Calculate the audit requirement rating taking into account the inherent risk assessment and the strength of the control environment for each auditable unit.
Step 6 *Determine the audit plan*	Determine the timing and scope of audit work based on the organisation's risk appetite.
Step 7 *Other considerations*	Consider additional audit requirements to those identified from the risk assessment process.

Other sources of assurance

Assurance can come from numerous sources within the Council. In developing the 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.

FIRST LEVEL Management
- Assurance at this level comes directly from those responsible for delivering specific objectives, projects or operational areas. These people know the business, culture and day to day challenges which ensure that risks are identified at the lowest level
- Responsibilities include identifying risks and improvement actions

SECOND LEVEL Corporate Groups and specialists
- Assurance at this level comes from other management areas or disciplines which are not directly responsible for delivery of the those areas. This includes areas where reviews are undertaken to ensure that specific areas of risk are being managed, For example Information Security, Heath and Safety.
- Responsibilities include designing policies, setting direction and ensuring compliance

THIRD LEVEL internal, external audit
- Assurance at this level comes from more independent and objective sources such as internal and external audit.
- Responsibilities include independent challenge, reporting on assurance
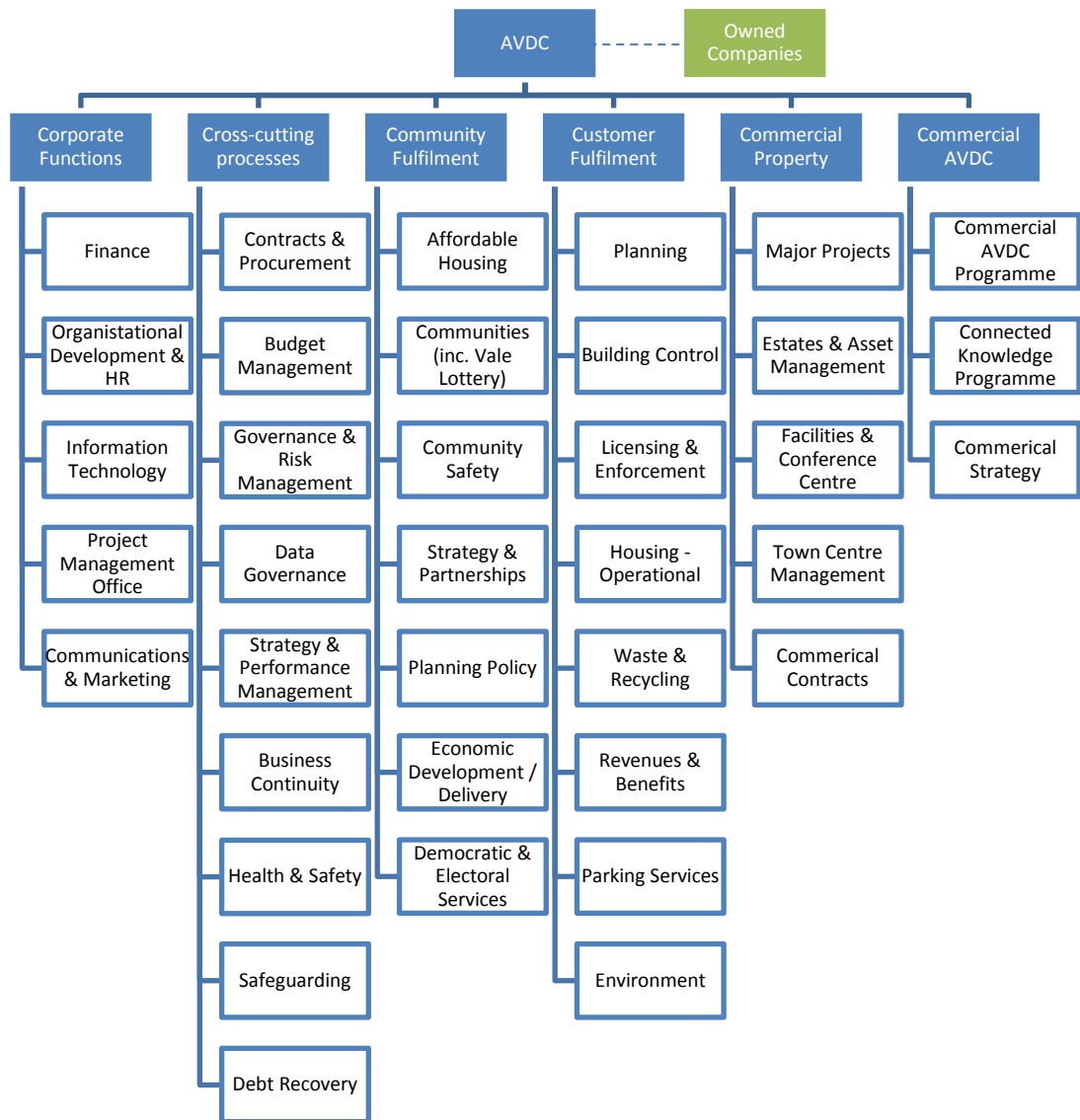
Key contacts

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

Name	Title
Andrew Grant	Chief Executive
Andrew Small	Director
Tracey Aldworth	Director
Andy Barton	Commercial & Business Strategy
Isabel Edgar Briancon	Business Support and Enablement
Teresa Lane	Commercial Property & Regeneration
Jeff Membery	Customer Fulfilment
Will Rysdale	Community Fulfilment
Maryvonne Hassall	Digital Strategy Director
Karen Jones	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 June 2017 and consideration of processes that run across a number of different areas of the Council (cross-cutting processes).

AVDC						Owned Companies
Corporate Functions	**Cross-cutting processes**	**Community Fulfilment**	**Customer Fulfilment**	**Commercial Property**	**Commercial AVDC**	
Finance	Contracts & Procurement	Affordable Housing	Planning	Major Projects	Commercial AVDC Programme	
Organisational Development & HR	Budget Management	Communities (inc. Vale Lottery)	Building Control	Estates & Asset Management	Connected Knowledge Programme	
Information Technology	Governance & Risk Management	Community Safety	Licensing & Enforcement	Facilities & Conference Centre	Commerical Strategy	
Project Management Office	Data Governance	Strategy & Partnerships	Housing - Operational	Town Centre Management		
Communications & Marketing	Strategy & Performance Management	Planning Policy	Waste & Recycling	Commerical Contracts		
	Business Continuity	Economic Development / Delivery	Revenues & Benefits			
	Health & Safety	Democratic & Electoral Services	Parking Services			
	Safeguarding		Environment			
	Debt Recovery					

* AVDC owned companies - Vale Commerce, 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	Risks to achievement of objectives (High risks Jun 2017)	Cross reference to Internal Audit Plan
To secure the economic, social and environmental wellbeing of the Vale	Sectors do not deliver the agreed savings and efficiencies identified in the AVDC programme.	F1, B1
	The Council's approach to commercialisation and income generation does not produce the income needed.	F1
	Organisational culture fails to support the strategy. Behaviour framework is not embedded.	
	Council owned or partly owned companies (VC, AVE & AVB) fail to achieve the Council's objectives.	F2
	Depot & workshop development project fails to address H&S and Environmental concerns and achieve commercial objectives.	
	Health & Safety - Non compliance with Fire and Health and Safety legislation.	
	Fail to plan for a major or large scale incident. Business interruption affecting the Council's resources and its ability to deliver critical services.	
	Information Governance - A significant data breach, Inappropriate access, corruption or loss of data	
	Business intelligence (performance data & customer insight) and associated data management systems across the Council are not sufficiently robust to provide accurate information to support effective decision making.	
	Loss of key staff / failure to recruit into key vacancies during time of change has negative impact on service delivery.	D1, D2, D3, D4, D5
	Modernising Local Government agenda: i) fails to achieve an outcome that addresses community needs ii) disruption to service delivery due to resource detraction from day-job and ongoing uncertainty	
	Failure to effectively engage with members and the community around the Council's overall vision and strategy.	
	Failure to deliver the Connected Knowledge Strategy and achieve the Council's digital objectives.	

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	Frequency	Comments (incl. other sources of assurance)
A	Corporate Functions					
	Finance • General Ledger, Debtors, Creditors, Payroll • Treasury, Fixed Assets	6	2	5	Annual	General Ledger, Debtors, Creditors, Payroll annual review of key processes. Treasury & Fixed Assets were last reviewed in 16/17 (Medium risk). In 17/18 implementation of agreed actions will be followed up.
	Organisational Development & HR	3	3	2	3 years	Currently internal focus on recruitment, cultural change and behavioural framework. Consider review of PD framework/cultural change in 18/19.
	IT	6	3	5	Annual	Assurance over governance & risk of digital change is via Connect Knowledge Programme Board. 17/18 review of ITGC focusing on TechOne
	Project Management Office	5	3	4	2 years	PMO being established in 17/18. Consider review in 18/19.
	Communications & Marketing	3	3	2	3 years	
B	Cross-Cutting Processes					
	Contracts & Procurement	5	3	4	2 years	16/17 reviewed two major contracts. New structure in place to ensure end to end mgmt. from procurement to close. In 17/18 new team will establish and build processes, review in 18/19.
	Budget Management	6	2	5	Annual	
	Governance & Risk Management	5	3	4	2 years	Continuous assurance over risk management processes and reporting to Audit Committee & Cabinet. Review compliance with CIPFA Good Governance Framework.
	Data Governance	5	3	4	2 years	16/17 advisory work on Information Management Strategy & Records Retention. 17/18 focus on GDPR readiness and assurance via IGG.
	Strategy & Performance Management	5	2	4	2 years	New teams and structure are embedding during 17/18 following business reviews. New Perf Mgmt reporting and metrics being developed. Consider review in 18/19 .
	Business Continuity	5	2	3	2 years	Plans to be revised post restructure and external support in exercising. Assurance over process via Commercial Board, internal audit 18/19.
	Health & Safety	6	4	4	2 years	Increased resource post restructure developing and embedding H&S management systems during 17/18. Consider IA review in 18/19.
	Safeguarding	5	4	3	2 years	Reviewed in 16/17.
	Debt Recovery	4	2	3	2 years	Ongoing project to improve reporting, policies and procedures. HoIA is on project board. Audit in 18/19.
C	Community Fulfilment					
	Affordable Housing	5	4	3	2 years	Consider review of housing grants.
	Communities	5	4	3	2 years	Vale Lottery audited in 16/17.

Ref	Auditable Unit	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Frequency	Comments (incl. other sources of assurance)
	Community Safety	5	3	4	2 years	Safeguarding audited 16/17. New team and processes being embedded during 17/18.
	Strategy & Partnerships	4	4	2	3 years	
	Planning Policy	5	4	3	2 years	
	Economic Development / Delivery	5	4	3	2 years	Sec 106 agreements audited 15/16.
	Democratic & Electoral Services	3	3	2	3 years	
D	Customer Fulfilment					
	Planning	5	4	3	2 years	High number of vacancies. New systems in Nov 17. Area of member focus. Review early in 17/18. Include validation of statistics and planning enforcement.
	Building Control	5	3	4	2 years	Area of public sector focus.
	Licensing & Enforcement	5	3	4	2 years	Taxi licensing remains nationwide area of focus. Last reviewed 15/16. Consider Planning Enforcement with Planning review.
	Housing –Operational	4	4	2	3 years	Audit of Housing Allocations in 15/16. Homelessness - New legislation Spring 2018. Review 18/19
	Waste & Recycling	5	3	4	2 years	Pembroke Road redevelopment oversight by Major Project Group. New teams and structures are embedding.
	Revenues & Benefits	6	2	5	Annual	Audit of Housing Benefits & Council Tax & Business Rates
	Parking Services	4	3	3	2 years	Team changes during 17/18, Review in 18/19.
	Environment	3	3	2	3 years	Parks, open spaces – consider with Sec 106 implementation
E	Commercial Property					
	Major Projects	6	4	3	2 years	Major Project Board provides oversight of significant capital projects – Waterside North, Pembroke Road, Crematorium
	Estates & Asset Management	5	2	4	2 years	16/17 reviewed landlord service charges. New Asset Management system implemented during 17/18.
	Facilities & Conference Centre	3	3	2	3 years	
	Town Centre Management	4	4	2	3 years	
	Commercial Contracts	5	4	3	2 years	16/17 review completed of two major contracts – Theatre & Everyone Active.
F	Commercial AVDC					
	Commercial AVDC Programme	6	3	5	Annual	Review of processes for monitoring savings and income targets
	Connected Knowledge	6	3	5	Annual	Assurance via programme governance arrangements, risk responsive reviews may be considered
	Commercial Strategy	6	2	5	Annual	Review of company governance arrangements (AVE & VC). AVB completed in 16/17, follow up.

Key to frequency

Risk based audit requirement rating	Frequency
6 and 5	Annual
4 and 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 2017/18, 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**						
A1	Finance • General Ledger • Debtors • Creditors • Payroll	22			X	X	Assurance over control design and operating effectiveness of key financial processes.
A2	IT – ITCG for TechOne	10			X		Review T1 application controls to ensure the data is complete, accurate and valid.
B	**Cross-cutting processes**						
B1	Budget Management	6			X		
B2	Governance & Risk Management	5				X	Review of compliance with CIPFA framework.
C	**Community Fulfilment**						
D	**Customer Fulfilment**						
D1	Housing benefits	8			X		
D2	Council Tax & Business Rates	6			X		
D3	Planning & Planning Enforcement	10		X			Processes for applications/appeals, data validation and enforcement.
D4	Building Control	8			X		Include fire safety checks.
D5	Licensing	8			X		Focus on taxi licensing and safeguarding controls.
E	**Commercial Property**						
F	**Commercial AVDC**						
F1	Commercial AVDC Programme Assurance	16		X			Focus on structures and processes to monitor and report savings & income commitments.
F2	Company Governance • Aylesbury Vale Estates • Vale Commerce • Aylesbury Vale Broadband	14		X			Assess governance arrangements for the Council's wholly or partly owned companies.

	(follow up)						
G	**Other**						
	Follow up of audit actions	9		X	X	X	Validation that agreed internal audit actions have been implemented.
	Grant audits • DFG	3			X		Grant compliance requirements
	Completion of 16/17 reviews: • Safeguarding • Landlord Service Charges • Accounts Receivable		X				
	Total planned audit days	**125**					
	Contingency for emerging risks	-					
	Total	**125**					

Resourcing the plan

The Head of Internal Audit (Corporate Governance Manager) is responsible for delivering the internal audit plan. Work will be performed by external service providers under a co-source arrangement. This allows for the flexibility, insight and innovation achieved through using suppliers who work with a rage of other public and private sector organisations, and also retains the desired level of proximity to AVDCs risks and priorities.

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;
- Knowledge of the sector/function/process; 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 sources of assurance; 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= weak, 6= strong)					
	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.

Impact rating	Assessment rationale
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.

Likelihood rating	Assessment rationale
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