INTERNAL AUDIT STRATEGY AND PLAN 2018-19

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 2018-19.

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2   Recommendations

2.1   The committee is recommended to approve the Internal Audit Strategy and Plan for 2018-19 attached at Appendix 1.

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3   Supporting Information

3.1   This report sets out the annual risk assessment and internal audit plan for Aylesbury Vale District Council (AVDC).

3.2   A summary of the approach to undertaking the risk assessment and preparing the internal audit plan is provided. 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.

3.3   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.

3.4   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.

3.5   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.

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

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

3.8   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

AVDC

AYLESBURY VALE
DISTRICT COUNCIL

Internal Audit Strategy and Plan 2018/19

June 2018

Contents

1. Introduction and approach
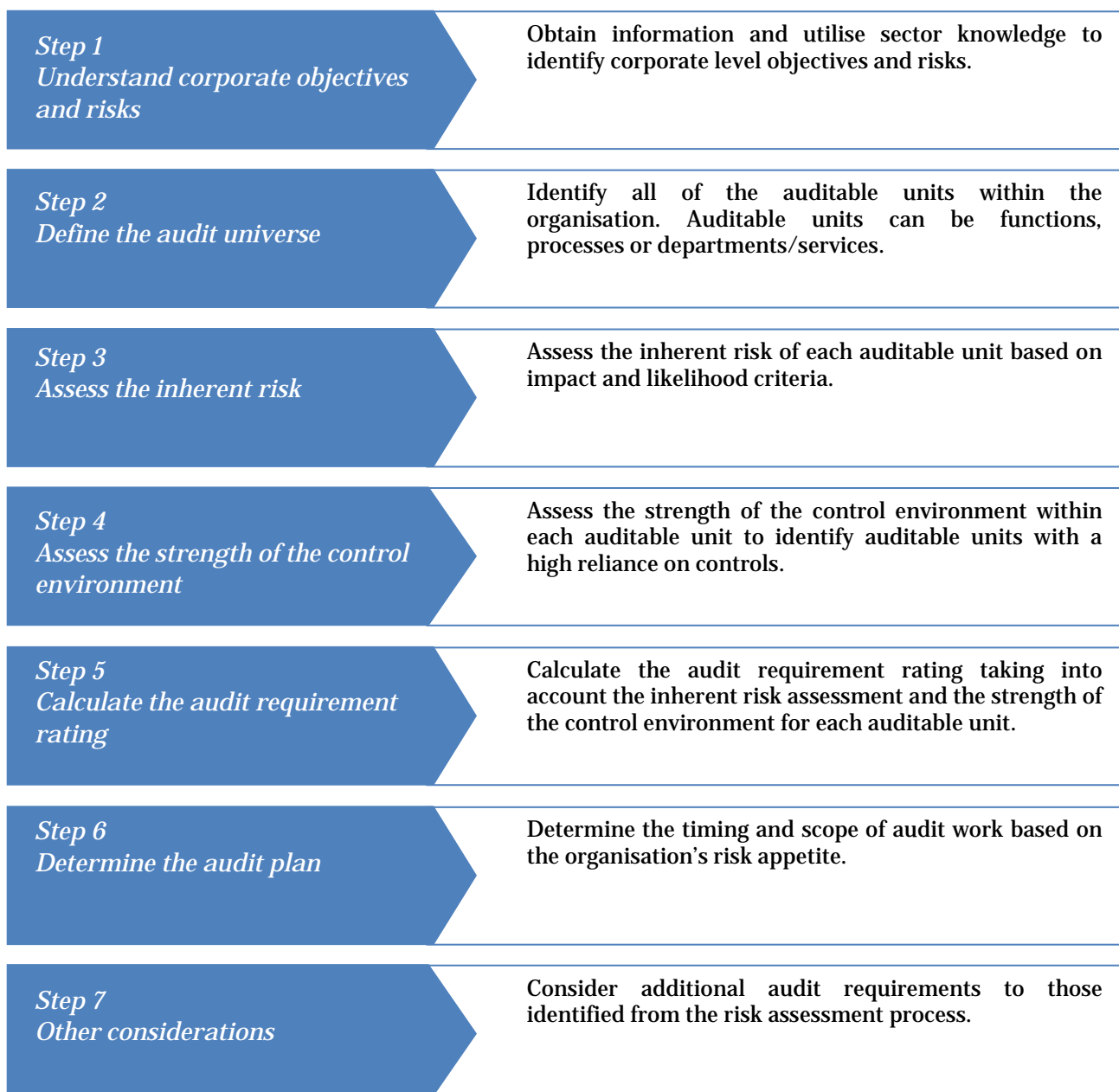
Introduction

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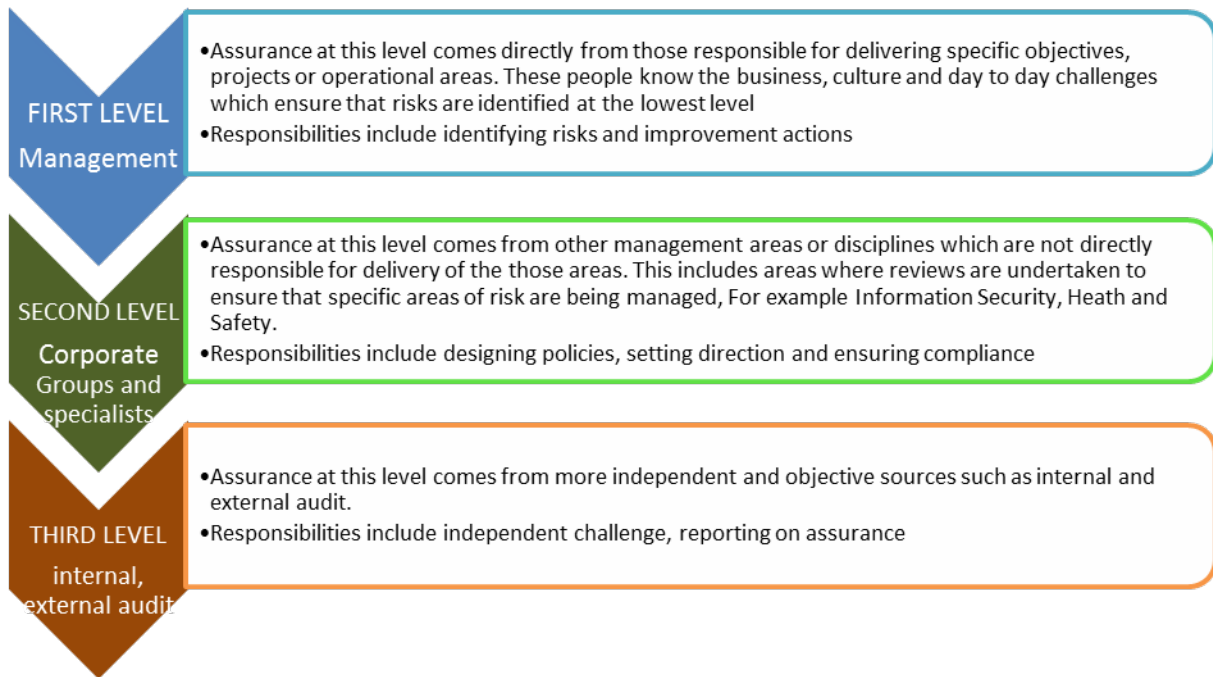
In developing the internal audit risk assessment and plan we have taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the audit universe and key risks.

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.

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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
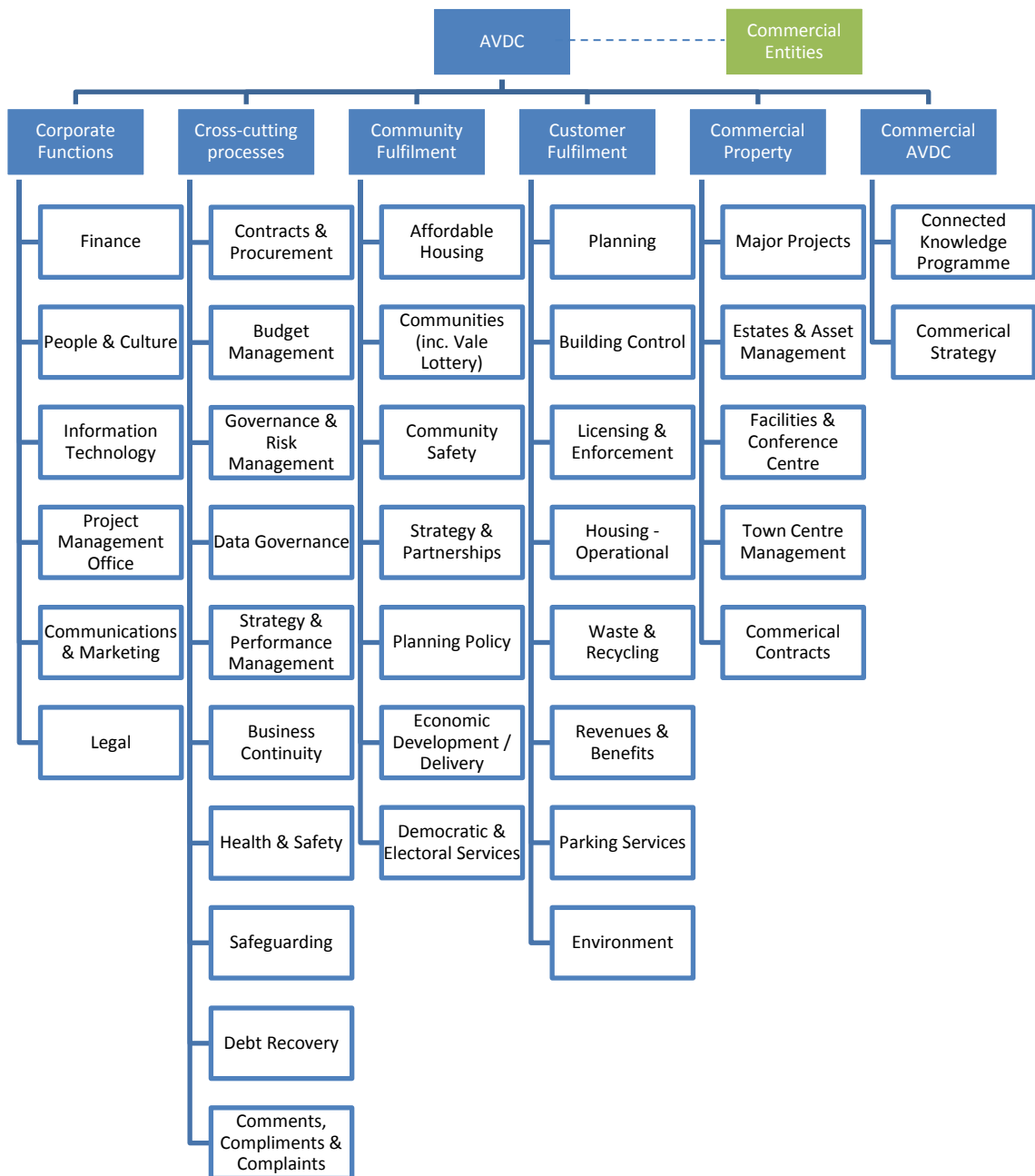
Key contacts

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

2. Audit universe, objectives and risks

Audit universe

We have identified the auditable units with the Council based on the structure as of June 2018 and consideration of processes that run across a number of different areas of the Council (cross-cutting processes).

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

* Commercial entities - Aylesbury Vale Estates

Corporate objectives and risks

Corporate level objectives and risks as described in the Corporate Risk Register (June 2018) have been considered when preparing the internal audit plan.

Objective	Risks to achievement of objectives (High risks)	Reference to Internal Audit Plan
To secure the economic, social and environmental wellbeing of the Vale	Organisational culture does not enable the strategy (Connected Vision, Connected Knowledge & commercial targets)	-
	Failure to deliver the Connected Knowledge Strategy and achieve the Council's Digital objectives.	A3, F1
	Fail to manage and deliver major capital projects on budget and to time - Pembroke Road redevelopment & The Exchange	-
	Fail to plan for a major or large scale incident (accident, natural hazard, riot or act of terrorism) / Business interruption affecting the Council's resources and its ability to deliver critical services.	-
	Failure to manage a major partnership (e.g. LEAP, Enterprise Zones) or a significant council contractor.	B1, D2
	Modernising Local Government decision: Disruption to service delivery due to resource detraction from day-job and ongoing uncertainty impacting all areas.	Reflected across all reviews
	Failure to adequately plan for next round of growth following adoption of VALP.	-
	Implementation of new HR & Payroll system may not go live with 100% accuracy.	A1
	Risks to achievement of objectives (Moderate risks)	
	Fail to achieve the Medium Term Financial Plan. Annual sector budgets are not delivered. Portfolio of commercial (profit generating/cost recovery) activities and opportunities fails to produce the return on investment needed.	A1, A2, A3
	Council owned or partly owned companies fail to achieve the Council's objectives. Inadequate governance arrangements.	F2
	Waste Transformation Project fails to deliver commercial, customer, H&S, Environmental objectives.	D3
	Health & Safety - Non-compliance with Fire and Health and Safety legislation. Fail to work with stakeholders to ensure safety of residential buildings following Grenfell. Lessons learned from Grenfell are not implemented.	B2
	Failure to provide Universal Credit applicants with the support needed to successfully claim; could result in increased rent arrears locally and subsequent pressure on homelessness services	D1
	Failure to effectively engage with members and the community around the Council's vision and strategy.	B3

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
	Organisational Development & HR	3	3	2	3 years	Focus on recruitment, cultural change and behavioural framework. Implementation of new HR/Payroll system in Oct 2018. Consider review of REACH framework/cultural change in 19/20 & post implementation review of new system
	IT	6	3	5	Annual	Assurance over governance & risk of digital change is via Connect Knowledge Programme Board. 18/19 review of ITGC focusing on TechOne
	Project Management Office	5	3	4	2 years	PMO being established and project governance controls are becoming embedded.
	Communications & Marketing	3	3	2	3 years	
	Legal	3	4	-	-	
B	Cross-Cutting Processes					
	Contracts & Procurement	5	3	4	2 years	Review corporate processes in 18/19 (see also Waste & Recycling)
	Budget Management	5	3	4	2 years	Follow up audit is monitoring progress on financial & performance monitoring & reporting actions
	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	4	3	2 years	Focus on embedding data t protection working practices and assurance via IGG.
	Strategy & Performance Management	5	2	4	2 years	New Perf Mgmt reporting and metrics being developed. Assurance initially via Strategic Board, consider audit when structures are in place
	Business Continuity	5	2	3	2 years	During 18/19 external consultant working to redesign & test framework. Internal audit 19/20.
	Health & Safety	6	4	4	2 years	IA review in 18/19.
	Safeguarding	5	4	3	2 years	Reviewed in 16/17 and follow up being monitored.
	Debt Recovery	4	2	3	2 years	Ongoing project to improve reporting, policies and procedures. IA audit of Billing, Debt Management and Recovery in 18/19.
	Customer comments, compliments and complaints	3	2	2	3 years	Corporate processes have changed post restructure. Audit 18/19 and consider customer charter.
C	Community Fulfilment					
	Affordable Housing	5	4	3	2 years	Consider review of housing grants

Ref	Auditable Unit	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Frequency	Comments (incl. other sources of assurance)
	Communities	5	4	3	2 years	Vale Lottery audited in 16/17.
	Community Safety	5	3	4	2 years	Safeguarding audited 16/17.
	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 audit in 18/19 and feed into IT systems review.
	Democratic & Electoral Services	3	3	2	3 years	
D	Customer Fulfilment					
	Planning	5	4	3	2 years	Planning and Enforcement reviewed in 17/18.
	Building Control	5	3	4	2 years	Reviewed in 17/18
	Licensing & Enforcement	5	3	4	2 years	Taxi licensing reviewed in 17/18
	Housing –Operational	4	4	2	3 years	Audit of Housing Allocations in 15/16. Homelessness - New legislation Spring 2018, review in 19/20.
	Waste & Recycling	5	3	4	2 years	Pembroke Road redevelopment oversight by Major Project Group. 18/19 review Street Cleaning & Horticulture Contract; Recycling Contract; review of Commercial Waste.
	Revenues & Benefits	6	2	5	Annual	Audit of Housing Benefits in 18/19. Council Tax & Business Rates in 19/20.
	Parking Services	4	3	3	2 years	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	17/18 reviewed landlord service charges. New Asset Management system being implemented during 18/19.
	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					
	Connected Knowledge	6	3	5	Annual	Assurance via programme governance arrangements. Review in 18/19 – focus on data migration & integration (TBC)
	Commercial Strategy	6	2	5	Annual	Review of governance arrangements for AVE & start-up of Property Investment Strategy

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 2018/19, 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 • Creditors • Payroll	16			X	X	Assurance over control design and operating effectiveness of key financial processes. Review new payroll processes post system implementation
A2	Billing, debt management and recovery	8			X		To include review of processes for billing selected income streams and management and recovery arrangement for all debt
A3	IT – ITCG for TechOne	8			X		Review T1 application controls to ensure the data is complete, accurate and valid.
B	**Cross-cutting processes**						
B1	Contracts & Procurement	8		X			Corporate processes
B2	Health & Safety	8		X			Corporate processes
B3	Customer comments, compliments & complaints	6				X	Corporate CCC process & new Customer Charter
C	**Community Fulfilment**						
C1	Section 106 Agreements	8		X			S106 / Environment
D	**Customer Fulfilment**						
D1	Housing benefits	6				X	Impact of Universal Credit
D2	Waste & Recycling - Contracts	10		X			- Street Cleansing & Horticulture - Recycling
D3	Waste & Recycling – Commercial Waste	8			X		
D4	Parking services	8			X		
E	**Commercial Property**						
F	**Commercial AVDC**						
F1	Connected Knowledge	10			X		
F2	Company Governance	10			X	X	Aylesbury Vale Estates & Property Investment (on start up)

G	Other						
	Follow up of audit actions	10	X	X	X	X	Validation that agreed internal audit actions have been implemented.
	Grant audits • DFG	2			X		Grant compliance requirements
	Total planned audit days	**126**					
	Contingency for emerging risks	-					
	Total	**126**					

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