

**Bolsover District Council**

**Audit Committee**

**11 April 2017**

**INTERNAL AUDIT PLAN 2017/18**

This report is public

**Purpose of the Report**

- To present to Members for consideration and agreement the Internal Audit Plan for 2017/18.

**1 Report Details**

- 1.1 A key requirement of the Public Sector Internal Audit Standards is that a periodic risk based plan should be prepared that is sufficiently flexible to reflect the changing risks and priorities of the organisation. The risk based plan should be fixed for a period of no longer than one year, should outline the assignments to be carried out, their respective priorities and the estimated resources needed.
- 1.2 The internal audit plan is linked to BDC's corporate plan objective to provide customers with an excellent service. Audit reviews report on the operation of controls in place and recommend improvements.
- 1.3 A note explaining the role, purpose and some of the terminology used in the internal audit plan is attached at Appendix 1.
- 1.4 An annual report summarising the outcome of the 2016/17 internal audit plan will be presented to this Committee after the year-end.
- 1.5 A summary of the internal audit plan for 2017/18 is shown below and the detailed plan is shown as Appendix 2.

**Internal Audit Plan 2017/18**

<b>Summary</b>	<b>Audit Days</b>
Main Financial Systems	175
Other Operational Audits	125
Computer / IT Related	15
Fraud and Corruption	10
Corporate / Cross Cutting	88
NFI Key Contact	15

Special Investigations & Contingency	40
Audit Committee / Client Liaison	15
<b>Grand Total</b>	<b>483</b>

- 1.6 The plan has been prepared taking into account the following factors:-
- The organisational objectives and priorities;
  - Local and national issues and risks;
  - The requirement to produce an annual internal audit opinion;
  - The organisations assurance framework;
  - An update of the internal audit risk assessment exercise covering the financial control and other procedures subject to audit;
  - The fraud risk register;
  - The Council's strategic risk register and
  - The views of the Executive Director Operations and other managers.
- 1.7 It should be noted that in terms of IT coverage a meeting has been held with the ICT Manager and Director of Operations to discuss where Internal Audit time spent would be most productive. In terms of network and cyber security assurance is received via the external accreditation of PSN. Internal audit will therefore ensure that BDC has received PSN accreditation but will then focus on reviewing a system/s to verify that the data within that system and access to the system is suitably controlled and secure and that data protection requirements are met.
- 1.8 Resource availability has been based on the Consortium Business Plan for 2017/18. The plan allocates 483 days to Bolsover District Council which is the same allocation as for 2016/17.
- 1.9 A copy of the audit plan is provided to the Council's external auditor to assist in co-ordination of work programmes.
- 2.0 Conclusions and Reasons for Recommendations**
- 2.1 To ensure that a risk based audit plan is adopted and to determine the internal audit work programme for 2017/18.
- 2.2 To comply with the Public Sector Internal Audit Standards.
- 3 Consultation and Equality Impact**
- 3.1 None.
- 4 Alternative Options and Reasons for Rejection**
- 4.1 Not Applicable.

## **5 Implications**

### **5.1 Finance and Risk Implications**

5.1.1 Financial – the internal audit budget for 2017/18 has been approved by the Joint Board and includes a contingency to cover any unforeseen circumstances etc.

5.1.2 Risk management issues – no formula exists that can be applied to determine internal audit coverage needs. However, as a guide the minimum level of coverage is that required to give an annual evidence-based opinion on internal controls. The level of coverage provided by the proposed 2017/18 internal audit plan will be sufficient upon which to base an opinion.

### **5.2 Legal Implications including Data Protection**

5.2.1 None

### **5.3 Human Resources Implications**

5.3.1 None

## **6 Recommendation**

6.1 That the Internal Audit Plan for 2017/18 be agreed.

## **7 Decision Information**

<b>Is the decision a Key Decision?</b> (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
<b>District Wards Affected</b>	N/A
<b>Links to Corporate Plan priorities or Policy Framework</b>	The report is linked to BDC's corporate plan objective to provide customers with an excellent service

**8 Document Information**

Appendix No	Title
1 2	Internal Audit Plan – Background Note Draft Internal Audit Plan 2017/18
<p><b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)</p>	
Report Author	Contact Number
Jenny Williams Internal Audit Consortium Manager	01246 217547

**INTERNAL AUDIT PLAN****BACKGROUND NOTE****1. Definition of Internal Audit**

Internal Audit is defined in the Public Sector Internal Audit Standards as:

“.. an independent, objective assurance and consulting activity designed to add value and improve an organisation’s 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. The Purpose of Internal Audit**

Internal audit is not a substitute for management. It is the purpose of internal audit to assist and support management by appraising the arrangements and procedures established.

There is also a statutory requirement for internal audit in local government contained in the Accounts and Audit Regulations 2015. These regulations require the authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking in to account public sector internal auditing standards and guidance.

**3. The Difference Between Internal Audit and External Audit**

External audit is completely independent of the authority. The Council’s external Auditors are KPMG. Much of the external auditors’ work is determined by statutory responsibilities. Internal audit’s terms of reference are determined and approved by management.

However, there is nevertheless considerable scope for co-operation to avoid duplication of work and to make maximum use of audit resources.

**4. The Scope of Internal Audit Work**

One of the essential elements for effective internal auditing is that the internal auditor should adequately plan, control and record their work.

To determine priorities and to assist in the direction and control of audit work the internal auditor will prepare a plan based on a risk assessment.

The audit plan is divided into the following sections: -

- **Main Financial Systems**

This covers the fundamental accounting and income collection systems of the authority such as payroll, creditor payments, council tax etc. Most of these systems are reviewed on an annual basis due to their importance.

- **Other Operational Audits**  
Audits to be undertaken in services include a review of the controls and procedures in place for areas such as cemeteries and disabled facilities grants.
- **IT Related**  
Topics in this area of the plan include a review of system security. Although only 15 days are specifically allocated to IT, IT issues are also covered within most of the areas examined.
- **Fraud and Corruption**  
Audits specifically related to the prevention of fraud and corruption are covered in this area of the plan. An example is completion of the fraud modules in respect of the main financial systems. It should be noted that a significant number of other audits include an anti-fraud element e.g. income audits.
- **Cross Cutting Issues**  
This area of the plan includes audit subjects that cover all services or are corporate Issues. Examples include work on procurement and safeguarding.
- **Special Investigations**  
A contingency provision is included in the plan to cover the investigation of irregularities or cases of suspected fraud and other problems.

## **5. Delivering the Internal Audit Service**

A three year strategic audit plan is compiled based on an internal audit risk assessment of auditable areas. This risk assessment takes into account the following factors:

Materiality – the amount of funds passing through the system

- Control Environment / vulnerability – assessed level of control based on previous audit findings
- Sensitivity – profile of the system in relation to customer service
- Management concerns – any specific issues relating to the operation of the system e.g. Council's Strategic Risk Register

Using a scoring system, audits are then categorised as High, Medium or Low risk. This ranking is then used to compile the annual audit plan.

The areas of audit work set out in the agreed plan are split into individual audit assignments.

An audit assignment can involve:

- preparation of system notes and a review/analysis of system controls;
- extraction of background information;
- extraction and testing of sample transactions and controls;
- notes of interviews and meetings.

All work undertaken is recorded on detailed working papers. To ensure that all areas

have been covered and appropriate conclusions reached, all working papers are independently reviewed.

A report on the findings and recommendations arising from the audit is sent to the appropriate Director and to the Executive Director of Operations (as Client Officer) at the conclusion of the audit. A response to the recommendations is requested within a set time.

A summary of internal audit reports issued each quarter is reported to the Audit and Governance Committee and an Annual Report is submitted after the end of the year detailing the outcome of the audits completed.

## Appendix 2

### Bolsover District Council Internal Audit Plan 2015/16 – 2017/18

Main Financial Systems	2015/16	2016/17	2017/18	Priority	Last Review	Risk Factor
Main Accounting/Budgetary Control	19	17	15	H	Annual	Main System failure, (Strategic Risk 2)
Payroll	20	20	15	H	Annual	Main System failure, reputation damage
Creditor Payments	15	15	20	H	Annual	Main System failure, financial penalties
Debtors	10	15	15	H	Annual	Main System failure, Loss of income
Treasury Management	15	10	10	H	Annual	Main System failure, misappropriation of funds
Cash and Banking	20	20	18	H	Annual	Main System failure, loss of income
Council Tax	10	20	10	H	Annual	Main System failure, loss of income
Non Domestic Rates	10	10	20	H	Annual	Main System failure, Loss of income
Housing / Council Tax Benefits	20	20	20	H	Annual	Main System failure, Reputational damage
Housing Rents	12	20	12	H	Annual	Main System failure, loss of income
Housing Repairs	20	20	20	H	Annual	Main System failure, reputation damage
Stores	10	10	0	M	16/17	Failure of contract with Travis Perkins
Expenses and Allowances	10	0	0	L	15/16	Wrong payments, fraud
VAT	0	8	0	M	16/17	System failure, financial penalties
<b>Total Main Financial Systems</b>	<b>191</b>	<b>205</b>	<b>175</b>			



<b>Other Operational Audits</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>Priority</b>	<b>Last review</b>	
Active and Healthy Lifestyles	0	0	<b>10</b>	L	N/A	Failure to meet Council priorities
Ambition Project/Funding	0	10	<b>0</b>	M	16/17	Mis- use of funds
Asset Management Arrangements	0	0	<b>10</b>	M	14/15	Value for Money, assets not fit for purpose
Cash Floats and Balances	6	0	<b>0</b>	L	In other audits	Theft, mis-use of cash
Central Garage/Transport	0	11	<b>10</b>	H	16/17	Poor Fleet Management
Commercial Waste	10	0	<b>0</b>	L	15/16	Loss of income
Current contract procedures	0	0	<b>15</b>	M	12/13	Poor contract management
Disabled Facilities Grants	12	0	<b>0</b>	M	12/13	Inability to deliver/fraud
Environmental Health Food Hygiene	0	0	<b>8</b>	M	N/A	Public Health
Environmental Health Licences	10	0	<b>8</b>	H	16/17 part	Loss of income/ safeguarding issues
Gas Servicing	0	10	<b>0</b>	M	16/17	Risk to life, reputation
Land Charges	0	0	<b>8</b>	L	13/14	Loss of income
Final Accounts	10	10	<b>5</b>	H	Annual	Incorrect payments
Health and Safety	8	8	<b>0</b>	M	16/17	Poor practice, reputation,
Homelessness	0	10	<b>0</b>	L	16/17	Reputation, public welfare
Housing Allocations and Lettings	0	0	<b>15</b>	M	14/15	Reputation, fraud
Housing Building/Company	0	0	<b>11</b>	H	N/A	Failure of company
Insurance	0	10	<b>0</b>	M	16/17	Wrong cover levels and type
Leisure Reviews	10	0*	<b>15</b>	M	15/16	Income loss, reputation
Members Allowances	10	0	<b>0</b>	L	15/16	Incorrect payments/fraud
Planning Fees	0	12	<b>0</b>	M	16/17	Loss of income/ fraud
Pleasley Mills/Property Rents	10	0	<b>10</b>	M	15/16	Loss of income
Right to Buy Sales	0	10	<b>0</b>	M	16/17	Fraud
Section 106	0	12	<b>0</b>	M	16/17	Loss of income/fraud/projects not completed

<b>Other Operational Audits</b>	<b>15/16</b>	<b>16/17</b>	<b>17/18</b>	<b>Priority</b>	<b>Last Review</b>	<b>Risk Factor</b>
Street Cleaning	0	10	0	L	16/17	Reputation
The Tangent	10	0	0	M	15/16	Loss of income/reputation
<b>Total Operational Audits</b>	<b>96</b>	<b>113</b>	<b>125</b>			
<b>Computer and IT Related</b>	<b>15/16</b>	<b>16/17</b>	<b>17/18</b>	<b>Priority</b>	<b>Last Review</b>	<b>Risk Factor</b>
Network Security/DR/PSN Compliance	8	0	0	H	External Assurance	System failures/cyber crime
System Security	0	0	15	M	N/A	Lack of control
BACS	0	8	0	L	16/17	False Payments/fraud
Disaster Recovery	8	0	0	M	15/16	Lost data
Social Media	0	4	0	M	16/17	Reputational damage
<b>Total Computer and IT related</b>	<b>16</b>	<b>12</b>	<b>15</b>			
<b>Cross Cutting Areas</b>						
Corporate Governance and AGS	10	10	10	H	Annual	Poor Governance (Strategic Risk 8)
Performance Management	15	10	10	H	Annual	Poor Governance (Strategic Risk 8)
Data Protection	10	10	10	H	Annual	Mis- use of Data, large fines (Strategic Risk 7)
Emergency Planning	0	10	0	L	16/17	Public Safety (Strategic Risk 5)
Financial Advice / Working Groups	10	10	20	H	Annual	Appropriate controls not in place
Procurement/ credit cards	15	0	18	M	15/16	Fraud, poor value for money
Risk Management	10	0	10	M	16/17	Poor Governance (Strategic Risk 8)
Safeguarding	0	8	10	H	Annual	Public safety, reputational risk
Sickness Absence	0	10*	0	L	16/17	Unhealthy workforce, high absence

							levels (Strategic Risk 3)
Transparency Agenda	10	0	0	L	15/16		Lack of transparency
<b>Total Cross Cutting Areas</b>	<b>80</b>	<b>68</b>	<b>88</b>				
<b>Fraud and Corruption</b>	<b>15/16</b>	<b>16/17</b>	<b>17/18</b>	<b>Priority</b>	<b>Last Review</b>		<b>Risk Factor</b>
Fraud Modules	10	10	10	H	Annual		Fraud
National Fraud Initiative	5	0	0	H	15/16		Fraud
Recruitment and Selection	10	0	0	M	15/16		Fraud, poor appointments
<b>Total</b>	<b>25</b>	<b>15</b>	<b>10</b>				
Special Investigations/Contingency	40	40	40	H	Annual		Fraud, loss of income
Alliance Accounts/NFI Key contact	20	20	15	L	Annual		Failure to investigate NFI matches
Audit Committee / Client Officer Liaison	15	15	15	H	Annual		Non compliance with Public Sector Internal Audit Standards
<b>Planned Total Days 2017/18</b>	<b>483</b>	<b>483</b>	<b>483</b>				