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<b>Report To:</b>	<b>Audit Committee</b>	<b>Date:</b>	<b>6 June 2017</b>
<b>Report By:</b>	<b>Corporate Director Environment, Regeneration and Resources</b>	<b>Report No:</b>	<b>AC/07/17/SA/APr</b>
<b>Contact Officer:</b>	<b>Andi Priestman</b>	<b>Contact No:</b>	<b>01475 712251</b>
<b>Subject:</b>	<b>Internal Audit Annual Plan 2017 - 2018</b>		

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### 1.0 PURPOSE

- 1.1 The purpose of this report is to present the Internal Audit Annual Plan for 2017-2018 to Members for approval.

### 2.0 SUMMARY

- 2.1 Internal Audit follows a risk assessment approach and operates to an Annual Audit Plan only, with rotational coverage of the top 20% of the Audit Universe.
- 2.2 The Audit Universe contains all areas that have been identified for review and an assessment has been undertaken of the risk relating to each area based on a number of criteria. Account has also been taken of the risks identified in the Council's Corporate, Directorate and Service Risk Registers and risks identified by external scrutiny bodies through the Local Scrutiny Plan.
- 2.3 It is intended that audit work will be focused on areas of greater risk taking into account management's own view of risk and meetings have been held with Corporate Directors and Heads of Service as appropriate. Each area has been assessed against a broad range of risk criteria and a risk score has been generated based on probability factors such as current control environment, results of last audit and time since the last audit.
- 2.4 In addition, the annual audit plan includes areas of proactive work in relation to corporate fraud reviews.
- 2.5 Furthermore, to meet the requirements of External Audit, the Annual Plan will include limited scope reviews of financial systems that are not subject to a full scope review or will not be covered in the External Audit Annual Audit Plan to maximise audit coverage and reduce duplication.
- 2.6 The proposed Annual Audit Plan for 2017-18 is attached at Appendix 1. The Plan contains a contingency provision that will be utilised during the year in response to unforeseen work demands that arise eg special investigations and provision of ad hoc advice.
- 2.7 The risk scoring system is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk.

### **3.0 RECOMMENDATIONS**

3.1 It is recommended that Members approve the Internal Audit Annual Plan for 2017-2018.

**Scott Allan**  
**Corporate Director Environment, Regeneration & Resources**

## 4.0 BACKGROUND

4.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising governance, risk management and control by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

4.2 The requirement for an Internal Audit function derives from local government legislation, including Section 95 of the Local Government (Scotland) Act 1973, which requires authorities to make arrangements for the proper administration of their financial affairs. Proper administration includes Internal Audit.

4.3 Internal Audit follows a risk assessment approach and operates to an Annual Audit Plan only, with rotational coverage of the top 20% of the Audit Universe.

4.4 The Audit Universe is risk assessed each year to determine the Annual Audit Plan and ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk. Each area within the Audit Universe is assessed for impact against a number of broad risk categories as follows:-

<b>Risk</b>	<b>Description</b>
• Strategy	Risks associated with the setting and achievement of strategic objectives.
• Economy	Risks associated with the economy in which Inverclyde Council operates.
• Reputation	Risks associated with threats to Inverclyde Council's name and standing in the sector.
• Customer	Risks associated with customer relationships.
• Legal/Regulatory	Risks associated with the requirement to comply with a wide range of statute.
• Financial	Risks associated with financial loss or inefficiency.
• Technology	Risks associated with application systems, their integrity, security and development.
• Management Info	Risks associated with the provision of information for decision-making purposes.
• Human Resources	Risks associated with people, eg recruitment, succession, development, motivation and morale etc.
• Operations	Risks associated with the business operating process.
• Business Continuity/ Resilience	Risks associated with disaster scenarios which would threaten the continuing operation of Inverclyde Council.
• Security	Risks associated with security over customer and Inverclyde Council's assets.
• Stakeholder	Risks associated with management of stakeholder expectations (eg Government or local communities)

4.5 Fraud risk areas have been assessed on the following risk categories – asset misappropriation; corruption and financial statement fraud.

## 5.0 CURRENT POSITION

- 5.1 It is intended that audit work will be focused on areas of greater risk taking into account management's own view of risk and meetings have been held with Corporate Directors and Heads of Service as appropriate. Each area has been assessed against a broad range of risk criteria and a risk score has been generated based on probability factors such as current control environment, results of last audit and time since the last audit.
- 5.2 Account has also been taken of the risks identified in the Council's Corporate, Directorate and Service Risk Registers; and risks identified by external scrutiny bodies through the Local Scrutiny Plan for 2017-2018.
- 5.3 Outlined below are the current risk factors influencing our proposed audit coverage for 2017-18:-
- The Council has an annual budget for grants to voluntary organisations to assist in the delivery of their organisations' activities. Internal Audit will review the adequacy and effectiveness of the arrangements that are in place for the provision of grants to voluntary organisations.
  - A wide range of services are provided from the customer service centre. In practice Customer Services is the first point of contact for customers which aims to provide a professional service to customers and leave them with a positive impression of the Council. This includes an emphasis on timeliness and accuracy. Internal Audit will review the adequacy and effectiveness of arrangements in place surrounding Customer Services.
  - A Joint Commissioning Strategy is in place for the HSCP which identifies how purchases social care services will support the strategic objectives set out in the HSCP Corporate Directorate Improvement Plan. It also provides a framework for evaluating the quality of these services, the effectiveness of their contribution and the extent to which they meet the needs of service users. Internal Audit will review the adequacy and effectiveness of the HSCP Commissioning arrangements.
  - Older Peoples Services – Billing and Collection. Internal Audit will review the adequacy and effectiveness of control procedures that are in place for the billing for services and the collection of revenues in relation to services provided.
  - Fraud risk reviews – a number of areas will be targeted in 2017/2018 to undertake proactive work including:-
    - Council Tax Reduction Scheme – to review the validity of occupied and unoccupied allowances granted;
    - Quick Quotes – to review the level of compliance with Standing Orders relating to contracts in relation to procurement of supplies, goods and services between £5000 and £25000;
    - Commercial Leases – to review the level of compliance with current policies and procedures.
    - Duplicate Payments (Creditors) – to investigate possible cases of duplicate payments to suppliers;
    - Code of Conduct – Other remunerative employment/Conflicts of interest – to review the level of compliance by employees;
    - Employee Expenses and Overtime – To verify the validity of employee expenses and overtime claims; and
    - Flexi Time – to review the level of compliance with HR policies and procedures within Services.
- 5.4 In relation to the total staff days allocated to the 2017-2018 plan, each member of staff completes a resource allocation spreadsheet for the year which is split between annual leave, public holidays, training days, general administration and operational plan days. This spreadsheet is reviewed and updated each period by each member of staff against time charged to timesheets.

The combined operational plan is 725 days which is calculated as follows:-

Team Member

- Audit Practitioner – 191
- Audit Assistant (0.8 FTE) – 152
- Senior Corporate Fraud Investigator – 191
- Corporate Fraud Investigator – 191

The Chief Internal Auditor does not directly carry out the assignments included in the annual audit plan but provides the quality review and delivery oversight of the overall plan. As such, no direct time is included within the plan. Where there are any resource issues which may impact on delivery of the plan, this will be reported to Audit Committee at the earliest opportunity.

- 5.5 During 2017-2018, the Chief Internal Auditor will assist in the Local Government Election in May and the UK General Election in June. This time has not been included within the overall annual audit plan for Inverclyde Council.
- 5.6 The proposed Annual Audit Plan for 2017-18 is attached at Appendix 1. The Plan contains a contingency provision that will be utilised during the year in response to unforeseen work demands that arise eg special investigations and provision of ad hoc advice. The plan also includes proposed resources for providing Internal Audit support to the Inverclyde Integration Joint Board.
- 5.7 The risk scoring system is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk.

**6.0 IMPLICATIONS**

**Finance**

- 6.1 The work required to deliver the Annual Internal Audit Plan will be contained in the existing Internal Audit budget.

Financial Implications:-

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
Internal Audit	Various	2017-2018	£226,607		

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

**Legal**

- 6.2 There are no direct legal implications arising from this report.

**Human Resources**

- 6.3 There are no direct HR implications arising from this report.

## **Equalities**

6.4 There are no direct equalities implications arising from this report.

## **Repopulation**

6.5 There are no direct repopulation implications arising from this report.

## **7.0 CONSULTATIONS**

7.1 Discussions have taken place with Corporate Directors and Heads of Service as appropriate in relation to the proposed annual audit plan coverage.

7.2 There will be regular ongoing discussion with External Audit to ensure respective audit plans are reviewed as circumstances change in order to minimise duplication of effort and maximise audit coverage for the Council. In their annual audit plan for 2016-2017 External Audit intend to place reliance on a number of areas of Internal Audit work carried out during 2016-2017.

## **8.0 LIST OF BACKGROUND PAPERS**

8.1 Internal Audit Annual Plan 2017-2018. Available from Andi Priestman, Chief Internal Auditor.

## INTERNAL AUDIT ANNUAL PLAN 2017-2018

Audit Area	Service	Risk Score	Staff Days
<b>Risk-Based Audit Reviews</b>			
Commissioning Arrangements	HSCP	6480	20
Older Peoples Services – Billing and Collection	HSCP	6324	25
Customer Services	Finance	5760	25
Grants to Voluntary Organisations	Safer and Inclusive Communities	4650	25
		<b>Total</b>	<b>95</b>
<b>Fraud Risk Reviews</b>			
Council Tax Reduction Scheme – Exemptions	Finance	1092	40
Creditors – Duplicate Payments	Corporate	832	25
Quick Quotes	Corporate	624	25
Code of Conduct – Conflicts of Interest/ Other Remunerative Employment	Corporate	624	40
Employee Expenses	Corporate	520	40
Flexi Time	Corporate	520	40
Commercial Leases	Regeneration and Planning	468	25
		<b>Total</b>	<b>235</b>
<b>Limited Scope Financial System Reviews</b>			
Revenues – Council Tax	Finance	6144	25
		<b>Total</b>	<b>25</b>
<b>Project Assurance Reviews</b>			
SWIFT Financials – Phase 1	HSCP	-	30
		<b>Total</b>	<b>30</b>
<b>Regularity Audits</b>			
Education – Pupil Equity Fund	Education	-	40
		<b>Total</b>	<b>40</b>
<b>Arms Length External Organisations</b>			
Performance Management Arrangements	Inverclyde Leisure Trust	-	30
		<b>Total</b>	<b>30</b>
<b>Corporate Governance Reviews</b>			
Annual Governance Statement (2016/2017)	Corporate Review	-	20
		<b>Total</b>	<b>20</b>
<b>Other Work</b>			
Audit follow up	Corporate	-	20
National Fraud Initiative	Corporate	-	50
SPOC Liaison with DWP	-	-	30
Fraud Awareness Training	-	-	10
IJB – Internal Audit Service	-	-	50
Contingency	-	-	25
C/f from 2016-2017 Audit Plan	-	-	40
		<b>Total</b>	<b>225</b>
<b>Total Staff Days</b>			<b>725</b>