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<b>Report To:</b>	<b>Audit Committee</b>	<b>Date:</b>	<b>19 April 2016</b>
<b>Report By:</b>	<b>Corporate Director Environment, Regeneration &amp; Resources</b>	<b>Report No:</b>	<b>AC/08/16/AF/APr</b>
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<b>Subject:</b>	<b>Internal Audit - Annual Plan 2016-2017</b>		

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## 1.0 PURPOSE

1.1 The purpose of this report is to present the Internal Audit Annual Plan for 2016-2017 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 for 2016-2017.

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 2016-17 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.

Appendix  
1

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 2016-2017.

**Aubrey Fawcett**

**Corporate Director Environment, Regeneration and 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 of statute.	Risks associated with the requirement to comply with a wide range
• 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 2016-2017.

5.3 Outlined below are the current risk factors influencing our proposed audit coverage for 2016-17:

- Facilities Management provide catering services to the Council. Internal Audit will review the adequacy and effectiveness of the arrangements that are in place for provision of catering services.
- Building Services carry out cyclical and planned maintenance as well as undertaking responsive repairs. Internal Audit will review the adequacy and effectiveness of the arrangements that are in place surrounding Building Services.
- The Council has recently introduced contract and supplier management procedures. Internal Audit will review the adequacy and effectiveness of supplier management procedures that are in place across the Council.
- Fraud risk reviews – a number of areas will be targeted in 2016/2017 to undertake proactive work including:
  - Council Tax Reduction Scheme – to review validity of occupied and unoccupied allowances granted;
  - School Inventory Procedures – to ensure inventory records are valid, accurate and complete;
  - Duplicate Payments (Creditors) – to investigate possible cases of duplicate payments to suppliers;
  - Non-Domestic Rates – To verify the validity of reliefs claimed;
  - Blue Badge Application – To verify the validity of blue badges used in the Inverclyde Area.
- A project has been set up to manage the impending changes to the way that all local authorities will measure Highways Network Assets in their Annual Accounts. Internal Audit will review the project management arrangements that are in place to ensure the changes are successfully implemented in a timely manner.

5.4 In relation to the total staff days allocated to the 2016-2017 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 695 days which is calculated as follows:

Team Member

Audit Practitioner – 191  
Audit Assistant (0.8 FTE) – 153  
Senior Corporate Fraud Investigator – 191  
Corporate Fraud Investigator – 160

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 2016-2017, the Chief Internal Auditor will assist in the Scottish Parliamentary Election in May and the EU Referendum 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 2016-17 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, e.g. special investigations and provision of ad hoc advice. The plan also includes proposed resources for providing Internal Audit support to the Integrated 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	2016-2017	£218,069		

##### 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.

## 8.0 LIST OF BACKGROUND PAPERS

- 8.1 Internal Audit Annual Plan 2016-2017. Available from Andi Priestman, Chief Internal Auditor

## INTERNAL AUDIT ANNUAL PLAN 2016-2017

Audit Area	Service	Risk Score	Staff Days
<b>Risk-Based Audit Reviews</b>			
Procurement Compliance – Supplier Management	Corporate Review	6580	15
Facilities Services – Catering	Environmental and Commercial Services	6048	30
Building Services Unit	Environmental and Commercial Services	5796	30
<b>Total</b>			<b>75</b>
<b>Fraud Risk Reviews</b>			
Council Tax Reduction Scheme – Exemptions	Finance	-	90
School Inventory Procedures	Education		40
Creditors – Duplicate Payments	Corporate	-	40
Non-Domestic Rates	Finance	-	40
Blue Badge Applications	HSCP	-	40
<b>Total</b>			<b>250</b>
<b>Limited Scope Financial System Reviews</b>			
Non Domestic Rates	Finance		25
<b>Total</b>			<b>25</b>
<b>Project Assurance Reviews</b>			
Valuing Highway Assets	Corporate	-	30
<b>Total</b>			<b>30</b>
<b>Regularity Audits</b>			
Education – Business Continuity Planning	Education	-	30
<b>Total</b>			<b>30</b>
<b>Performance Audits</b>			
SOLACE Indicators	Corporate	-	30
<b>Total</b>			<b>30</b>
<b>Corporate Governance Reviews</b>			
Annual Governance Statement (2015/2016)	Corporate Review	-	30
<b>Total</b>			<b>30</b>
<b>Other Work</b>			
Audit follow up	Corporate	-	20
National Fraud Initiative	Corporate	-	20
Serious Organised Crime Risk Assessment	Corporate	-	20
SPOC Liaison with DWP	-	-	30
Fraud Awareness Training	-	-	10
IJB	-	-	50
Contingency	-	-	25
C/f from 2015-2016 Audit Plan	-	-	50
<b>Total</b>			<b>225</b>
<b>Total Staff Days</b>			<b>695</b>