Internal Audit Plan 2016/17

Joint report by the Head of Audit & Risk Management and the Director of Finance (Section 3 only)

Summary
This report provides Members with details of the Internal Audit Section's Plan for the financial year 2016/17 and asks for the Committee's approval of the Plan.

1. Introduction

1.1 In accordance with the Public Sector Internal Audit Standards (the Standards), the Head of Audit & Risk Management prepares a risk based audit plan which outlines the assignments to be carried out, their respective priorities and the estimated resources needed for the year.

1.2 Details are provided below of the process followed in order to produce the audit plan which complies with the requirements of the Standards.

2. Audit Planning Process

2.1 The Plan, attached at **Appendix 1**, has been produced in accordance with the Audit Charter, and following the steps outlined at 2.2 – 2.8 below.

2.2 Meetings were held with all Service Directors in January and February of this year in order to discuss and agree their audit priorities. This process also involved review of the individual Service, and the Corporate Risk Registers in order to consider whether any of these risks should be subject to audit activity.

2.3 In addition, a meeting was also held with the Committee Chair and Vice-Chair to identify possible audits for inclusion in the audit plan. This followed the Chair inviting the Audit & Scrutiny Committee Members to provide details of audits requested and the rationale for these. All requests have been accommodated within the Audit Plan and these are identified within the audit scope.

2.4 An "Audit Universe" is maintained which contains details of all possible auditable areas. In accordance with the Standards, this has been mapped to the financial materiality of the area, any relevant Corporate and/ or Service risks, and any Programme commitments. In addition, consideration has also been given to any other internal or external assurance that can be relied upon. The Audit Universe will be updated early 2017 to take account of the planned re-design of the Council and this new information will be used as part of the 2017/18 planning process.

2.5 All auditable areas contain a risk score which comprises individual scores provided by Service Directors and the Head of Audit & Risk Management. These scores range from 1 – 6 considering the impact of risk from insignificant

(1) to critical (6), meaning that all auditable areas have scores between 2 and 12.

2.6   Priorities are attached to the scores but in light of reduced resources (see section 3) and the CIPFA guidance (see 2.7 below), it was considered appropriate to revisit these and as a result, the frequencies have been amended as follows:

Score	Priority	Original Frequency	Amended Frequency
11-12	Core/ Critical/ Commitment	Annual	No change
9-10	High	Every 3 years	No change
5-8	Medium	Every 5 years	Every 7 years
1-4	Low	Infrequent	Upon demand

This approach will ensure that the audit resources are targeted at the higher risk areas within the Council. In addition there are a number of audits where the priority is "High" or "Medium" but there is a requirement that this audit is undertaken on an annual basis, for example review of the LEADER Programme.

2.7   In preparing the plan this year, reference was made to CIPFA guidance issued in January 2016 on "Auditing Within Public Spending Constraints" which sets out the audit approach that should be followed. This guidance was used to prepare a checklist to ensure that our audit planning process accords with best practice. A copy of this checklist is provided at **Appendix 2**.

2.8   Previously, as agreed with Audit Scotland, there was a three year rolling plan in place for the review of the key systems, particularly the main financial systems. This approach has been revisited, particularly taking account of the positive audit opinions that have been provided in recent years and also the lack of changes that have taken place. It has therefore been decided that certain systems could be reviewed every five years rather than every three years, thus allowing audit resources to be targeted more at areas of higher risk.   In addition, annual audits of Statutory Performance Indicators and Corporate Governance are no longer considered to be necessary and will similarly be undertaken every five years. Fuller details of this approach are set out at section 1.2 of Appendix 2. Audit Scotland has been informed of this change in approach.

2.9   Time is also allowed for work associated with the provision of the Head of Audit & Risk Management's annual opinion which appears within his Annual Report and the Council's governance statement. This work includes a review of the main financial systems (where these are not subject to a more detailed review in this year) to ensure that they are operating as expected and consideration of the Council's control environment including ICT systems. This planned work is considered sufficient to provide the annual audit opinion.

2.10   There are audits in progress from the 2015/16 Plan which will not be completed by the year-end. Time has been allowed for this work in progress which will be reported to Committee as part of the 2016/17 audit work undertaken.

2.11   An allowance of 20 days has been made for the programme of Scrutiny reviews and the relevant work to be undertaken will be decided by the Audit &

Scrutiny Committee. In addition, a formal follow-up of the Managing Sickness Absence exercise will be undertaken.

2.12   The Audit Plan also includes the work undertaken by the Corporate Fraud Team. This includes such tasks as acting as the Single Point of Contact with the Department of Work and Pensions, investigating all fraud referrals including those involving suppliers, employees, Council Tax and NDR benefits/ discounts, and any possible frauds arising from the National Fraud Initiative. Furthermore, a review of the Council's Counter Fraud Arrangements will be undertaken to ensure that our arrangements accord with the relevant CIPFA Code of Practice.

2.13   The Audit Plan refers to the planned work with regard to Highland Council only. In addition, the Section also undertakes work as follows:

- Pension Fund
- Joint Valuation Board
- HITRANS
- High Life Highland
- Shared Services ICT audit work on behalf of Western Isles Council, Orkney Islands Council and, with effect from April 2016, Perth & Kinross Council.

3.   Audit Resources (Author: Director of Finance)

3.1   The last Committee considered available audit resources, and rightly Members expressed concern about a planned delay in filling a vacant Auditor post. As Members will be aware, since that last Committee meeting, the Council's budget position has changed significantly. In particular Council services were required to consider the scope to find further savings, and a Voluntary Redundancy Scheme (VRS) was launched. By the close of the VR Scheme on 29th January, three applications for voluntary redundancy had been received from Internal Audit staff and, given the scale of the Council's budget challenge, have been accepted.

3.2   These decisions were not taken lightly, and had to take account of other applications and opportunities across the Finance Service and the wider Council. When added to the vacant Auditor post, the reduction in Internal Audit Resource equates to 3.6 FTE. It is my opinion that a reduction of this level of internal audit is too much, and would form a disproportionate reduction in the size and capability of the team. Proposals are therefore being developed to enhance the Team from other sources. Whilst these are at an early stage of development, Members should note that the Audit Plan makes allowance for additional resources from July 2016 of 2 FTE.

3.3   The Performance Team is to be transferred from Corporate Development, and it is proposed to create an Audit & Performance Section. The exact remit is being developed, and will require a review of existing roles and responsibilities. This does however offer the opportunity to enhance performance management and link with financial management and best value reviews. More details will be provided to Members in due course.

3.4   Internal Audit has a very important role to play within the Council, and provides an independent and objective assurance that evaluates and improves the effectiveness of risk management, control and governance processes. The

planned changes, and the inclusion of performance management, will enhance this role and provide capacity to add value and improve the Council's operations.

4. Implications

4.1 There are no implications arising from this report. Any adjustments required to the Plan and any associated implications will be reported to the Committee.

Recommendation

Members are invited to approve the attached audit Plan for 2016/17.

Designation: Head of Audit & Risk Management/ Director of Finance

Date: 10th March 2016

Authors: Donna Sutherland, Audit & Risk Manager
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Background Papers:

Highland Council Internal Audit Plan 2016/17

Service	Audit Ref and Name	Audit Scope	Priority	Planned Days
Care & Learning Service	HAA02/002 - Family Teams	Scope to be agreed.	Core/ Critical/ Commitment	25
Care & Learning Service	HAA05/001 - Review of Throughcare and Aftercare services	Review of throughcare and aftercare services provided by external organisations.	High	20
Care & Learning Service	HAB01/007 - Schools - Use of Systems	Review of the implementation of new systems/ processes within Schools and whether the intended benefits were delivered as expected.	Core/ Critical/ Commitment	20
Care & Learning Service	HAB01/008 - Review of Financial Procedures operated in Schools	Review of financial arrangements in Schools.	Core/ Critical/ Commitment	30
Care & Learning Service	HAB01/009 - Network capacity management in Schools	Review of the arrangements for the storage of ICT data within Schools.	Core/ Critical/ Commitment	20
Care & Learning Service	HAC01/002 - Integrating Care in the Highlands	Review of the arrangements between the Council and NHS Highland for Integrating Care. Scope to be agreed.	High	30
Care & Learning Service	HAC02/001 - Commissioned HLH Services	Review of the arrangements between the Council and High Life Highland (HLH) for the delivery of Culture & Leisure services.	High	20
Care & Learning Service	HAC03/001 - Provision and maintenance of sports pitches	Review of the arrangements for identifying the most suitable type of sports pitch for an establishment and how this is then appropriately maintained. This audit is being undertaken at the request of Members.	Medium	20
Care & Learning Service	HAD02/002 - Catering	Review of the catering function including school meals income.	High	20
Corporate Development Service	HBA01/007 - Review of ICT projects	Review of a sample of ICT projects to ensure compliance with the new Project Management Governance Policy. This audit is being undertaken at the request of Members.	Core/ Critical/ Commitment	20
Corporate Development Service	HBA01/008 - Cloud Computing	Review of the business justification for using the cloud and the appropriateness of information security assurances and contract terms.	Core/ Critical/ Commitment	20

Service	Audit Ref and Name	Audit Scope	Priority	Planned Days
Corporate Development Service	HBA01/009 - End user security and configuration	To ensure ICT Services maintain the required security levels when going into the transition/ transformation exercise as a result of the new ICT Contract.	Core/ Critical/ Commitment	20
Corporate Development Service	HBA01/010 - Supplier's adherence to Pathfinder North 2 contract	To ensure that the supplier is adhering to the terms and conditions agreed and set out in the Path Finder North 2 (PFN2) Call Off Contract for catalogue services defined in the SWAN Framework Agreement.	Core/ Critical/ Commitment	20
Corporate Development Service	HBA02/003 - Review of compliance with complaints procedure	Review of the handling of complaints by Council Services to ensure that these comply with the requirements of the corporate procedure.	High	20
Corporate Development Service	HBA02/004 - Customer Services Review	Review of the process undertaken in order to identify lessons that can be learned in particular relating to the quality and consistency of the information that was provided to Members. This audit is being undertaken at the request of Members.	High	20
Corporate Development Service	HBB01/001.bf.bf - Resource Link	Review of the operation of new Resource Link processes as a result of the HR CIP project.	Low	20
Corporate Development Service	HBB04/001 - Compliance with Health, Safety & Well-being policies and procedures	Review of compliance by Services with the Council's Health, Safety and Well-being policies.	High	20
Community Services	HCA02/003 - Housing Revenue Account	Review of the staff and associated costs charged to the Housing Revenue Account (HRA) in order to ensure that this is appropriate.	High	20
Community Services	HCA02/004 - Replacement heating systems	Review of the project management of the contracts for replacement heading systems and what lessons can be learned from these. This audit is being undertaken at the request of Members.	High	30
Community Services	HCA03/002 - Homelessness	Review of the arrangements for the procurement and subsequent payment to organisations which provide services for clients who are either homeless or have issues with sustaining their tenancy.	Low	20

Service	Audit Ref and Name	Audit Scope	Priority	Planned Days
Community Services	HCD04/001 - Roads Maintenance - condition surveys	Review of the process for undertaking road condition surveys. This audit is being undertaken at the request of Members.	High	20
Community Services	HCD06/001 - Review of the control of overtime within Community Services	Review of the systems for the control of overtime across Community Services to ensure that this is in accordance with the relevant policies and procedures.	High	20
Community Services	HCD07/001 - Review of Burials and Cremations	Review of the arrangements for burials and cremations to ensure that these operate in accordance with Council policy and the relevant legislation.	High	20
Finance Service	HDA01/001 - Budgetary Control	Review of the systems for the setting, control and monitoring of revenue and capital budgets.	High	20
Finance Service	HDA09/001 - Creditors	Review of the systems for the central processing of payments to creditors.	High	20
Finance Service	HDC03/003 - Matters arising from the Highland Council's Statement of Internal Control 2015-16	Allowance for work to be undertaken in order to support the audit opinion in the Statement of Internal Control.	Core/ Critical/ Commitment	25
Finance Service	HDC04/003 - Continuous Auditing Exercises	Allocation of time for continuous auditing of financial systems with aim of providing assurance that the expected controls are operating and that there is no fraudulent activity.	Core/ Critical/ Commitment	40
Finance Service	HDC06/009 - SPOC work 2016-17	Allocation of time for Single Point Of Contact (SPOC) work.	Core/ Critical/ Commitment	120
Finance Service	HDC06/010 - NFI work 2016-17	Allocation of time for National Fraud Initiative (NFI) work and any associated investigations.	Core/ Critical/ Commitment	40
Finance Service	HDC06/011 - Review of Counter Fraud Arrangements	Review of the Council's arrangements to counter fraud and to identify what changes/ improvements are required in order to ensure that these are robust, working as effectively as possible and accord with the CIPFA Code of Practice.	High	15

Service	Audit Ref and Name	Audit Scope	Priority	Planned Days
Finance Service	HDC06/012 - Investigations 2016-17 - Housing Tenancy Fraud	Allocation of time for investigations into suspected housing tenancy fraud.	Core/ Critical/ Commitment	80
Finance Service	HDC06/013 - Investigations 2016-17 - CTR Fraud	Allocation of time for investigations undertaken in respect of suspected Council Tax Reduction (CTR) Fraud.	Core/ Critical/ Commitment	30
Finance Service	HDD01/003 - Procurement	Annual review of Procurement function. Scope to be agreed.	Core/ Critical/ Commitment	20
Finance Service	HDC01/001 - Financial Regulations	Allowance of time for the review of Financial Regulations and associated Guidance Notes. Also for the update of the web based training.	Core/ Critical/ Commitment	10
Finance Service	HDC23/004 - Scrutiny Exercises 2016-17 - TBC	Allowance for annual programme of scrutiny exercises.	Core/ Critical/ Commitment	20
Finance Service	HDC23/005 - Scrutiny Exercises - Managing Sickness Absence (follow-up)	Follow-up exercise to ensure that the management agreed actions have been satisfactorily implemented.	Core/ Critical/ Commitment	20
Finance Service	HDC24/003 - Follow Ups Allowance 2016-17	Annual allowance for follow up of audits which are not subject to a specific follow-up review.	Core/ Critical/ Commitment	30
Development & Infrastructure Service	HEA01/001 - Planning and Building Control fees and charges	Review of the systems for the collection and processing of Planning and Building Control fees and charges.	Medium	30
Development & Infrastructure Service	HEB01/002 - Control of Performance Bonds	Review of the process for the control, use and payment of performance bonds. This audit is being undertaken at the request of Members.	High	10
Development & Infrastructure Service	HEB02/001 - Contract audit	Scope to be agreed. This audit should ensure the capital projects are undertaken in accordance with the new Project Management Governance Policy.	High	30
Development & Infrastructure Service	HEC01/004 - LEADER Programme 2015-16	Review of the administration of the new LEADER Programme to ensure that this complies with the relevant regulations.	Core/ Critical/ Commitment	20
Development & Infrastructure Service	HEC01/005 - European Maritime and Fisheries Fund 2015-16	Review of administration of the new European Maritime and Fisheries Fund (EMFF) Programme.	Core/ Critical/ Commitment	15

Service	Audit Ref and Name	Audit Scope	Priority	Planned Days
Development & Infrastructure Service	HED02/003 - Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2015-16	Review of the arrangements for compliance with the Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES).	Core/ Critical/ Commitment	15
Development & Infrastructure Service	HED02/004 - Review of the process for the management of the Renewable Heat Incentive scheme income	Review of the process for the management of Renewable Heat Incentive (RHI) scheme income to ensure that this this robust and manageable.	Medium	15
Development & Infrastructure Service	HED04/004 - Repairs and Maintenance in Schools	Review of the process for the inspection and instruction of repairs and maintenance in Schools to ensure that this is undertaken in accordance with the relevant policies and procedures. This audit is being undertaken at the request of Members.	High	30

Auditing Within Public Spending Constraints

No.	Requirement	Response
1.	**Annual Audit Plan**	
1.1	The audit plan should focus more on the risks that are critical to the business rather than simply financial or compliance risks.	The Audit Plan is compiled following meetings with Directors, the Chair & Vice Chair of the Audit & Scrutiny Committee and Audit Scotland, thus ensuring that there is appropriate and targeted coverage of the key risk areas.
1.2	The Head of Internal Audit needs to ensure that there is still sufficient coverage of key systems to provide an opinion on the organisation's systems of internal control at the end of each year.	All key systems have previously been the subject of a detailed audit review, on a cyclical basis, every 3 years. In view of a reduction to the audit resource, some key systems will be audited less frequently (every 5 years). These are as follows: • Housing Benefit & Council Tax Benefit • Council Tax – Valuation • Council Tax – Billing • NNDR – Valuation • NNDR - Billing • Treasury Management • Asset Management • Risk Management. In addition, the following annual audits will no longer be undertaken annually and will also be audited every 5 years. • Performance Indicators – instead of Internal Audit undertaking annual work, additional checks will be put in place by the Performance Team • Corporate Governance Arrangements – previous internal audit reports have clearly demonstrated that the Council complies with the CIPFA/ SOLACE framework and has a local code of Corporate Governance in place.

No.	Requirement	Response
		Key systems which will continue to be audited every 3 years are as follows: • Creditors • Debtors • General Ledger • Income • Payroll • Budgetary Control • Housing Rents. In addition, annual testing will also be performed on the key controls in each system.
1.3	The risk based annual audit plan is the key planning document. This needs to be flexible in order to be responsive to changes and events occurring during the year.	An annual Audit Plan has been prepared which includes a contingency to allow for flexibility.
1.4	Any reduction in audit days results in areas that cannot be audited at the frequency identified by the risk based audit plan, requiring decisions about which audits to leave out or postpone. Such decisions should be made in consultation with the Audit Committee and senior managers so that they are aware of potential increased risks.	See 1.2 above and also sections 2.6 and 2.8 of covering report which set out how reviews are to be prioritised. Essentially, this shows that there is no change in approach with regard to the areas of highest risk.
2.	**Audit Coverage – Strategic Plans**	
2.1	Detailed strategic plans are becoming less common as the pace of change tends to make them obsolete quickly. However, there is still benefit in mapping the audit universe onto the organisation's assurance framework to demonstrate the scope and limitations of internal audit work.	A detailed strategic plan was prepared as part of the exercise to compile the Annual Audit Plan for 2015/16. This enabled areas where other appropriate assurances are in place to be "mapped" thus ensuring that Internal Audit work is not undertaken unnecessarily.
2.2	A consequence of focusing on key risks and having limited resources is that there may be areas within the audit universe that will be audited very rarely or not at all.	In compiling the Strategic Plan in 2015/16 it was reported to the Audit Committee of 26/03/15 that the frequency with which each audit would be undertaken would be dependent upon its priority rating as scored by the Service Director and the Head of Audit & Risk Management. These

No.	Requirement	Response
		priorities were identified as follows: • Core/ Critical/ Commitment – Annual • High – Every 3 years • Medium – Every 5 years • Low – Infrequent. In view of the reduced resources available, Medium priority audits will be undertaken, on average, every 7 years and Low priority audits will be undertaken as and when the demand arises.
2.3	Management and Audit Committees should be made aware of changes to the scope and extent of internal audit coverage, particularly where there may be gaps, and the effect that this may have on the organisation's risk profile and the need to obtain assurance from other sources.	This is set out in the Audit Plan for 2016/17.
2.4	Audit Committees should be encouraged to think about how they will get this additional assurance, for example by requesting reports directly from management.	Whilst the Audit & Scrutiny Committee may wish to consider requesting reports directly from management, the following needs to be recognised: • There will be capacity issues in all Services • There would be an absence of independence and challenge.
3.	**Reviews and Scope of Reviews**	
3.1	Internal audit should undertake a review of the change management process as a whole, to ensure that the stated aims of projects are accurately aligned with corporate projects and there is an adequate infrastructure in place to deliver projects successfully.	A Project Management Governance Policy/ Framework for Project Sponsors, Project Boards, Service Senior Management and Elected Members was approved by the Resources Committee in November 2015 and helps to give assurance that there is appropriate governance in place.

No.	Requirement	Response
3.2	As a result of public spending constraints, reputation is increasingly becoming a top ten risk on strategic risk registers. The management of reputational risks can be addressed by audit reviews covering areas such as: (i) Complaints procedures (ii) Communications and publicity policies (iii) Social media management (iv) Staff and public surveys (v) Whistleblowing procedures (vi) Data protection (vii) Business continuity/ emergency planning.	(i) Included in Audit Plan 2016/17 (ii) Corporate Communications Strategy approved in March 2015 (iii) Policy on the acceptable use of social media in place and training provided (iv) Staff survey conducted every 2 to 3 years. Annual Public Survey of Performance and Attitudes through the Citizens' Panel. (v) Suitability of procedures to be considered as part of Internal Audit's planned review of counter fraud procedures (see 4 below) (vi) Audited during 2015/16 (vii) Audited during 2014/15.
3.3	In scoping audit reviews, internal audit should consider the organisational risks associated with maintaining service delivery in the face of funding cuts. In particular: (i) Lack of capacity at the centre to set standards, check compliance and provide assurance on the control environment. (ii) A lack of resource to maintain effective internal control frameworks, with less segregation of duties. (iii) Organisational restructures and increased spans of control affect the technical knowledge and experience of managers in relation to their areas of responsibility. (iv) The loss of experience/ expertise at an operational level: general reductions in staffing numbers increase the impact of staff absences and other service interruptions. Absences may also increase owing to greater pressure of work and loss of motivation.	These issues and risks will be considered in scoping individual audit reviews.

No.	Requirement	Response
	(v) Managers becoming involved in operational service delivery at the expense of oversight and control duties.	
	(vi) Fewer dedicated or qualified support staff increases financial risk, for example inaccurate management information, the failure to raise invoices and collect income.	
	(vii) Greater tolerance of poor practice, either through necessity or as a result of cultural change.	
	(viii) A reduction in the quality of documentation to support transactions and processes.	
	(ix) Ineffective handover procedures leave new staff and mangers with a poor understanding of their responsibilities and a lack of knowledge of ongoing issues.	
	(x) Less effective internal control environments increase the risk that fraud and error are not identified, or are not identified in a timely manner, increasing the resource required to investigate and correct the issue.	
	(xi) Increased use of consultants, agency and other temporary staff can increase costs and generate control/service continuity issues.	
	(xii) Short cuts in procurement processes, for example extending contracts rather than retendering, a lack of effective contract management arising from time constraints or a lack of understanding of the contract deliverables.	
4.	**Counter Fraud**	
4.1	Internal audit should ensure that the organisation has effective policies and procedures in place to encourage the early reporting of concerns.	Work is planned during 2016/17 to ensure that the Council's fraud procedures are robust and comply with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

No.	Requirement	Response
4.2	Management increasingly depends upon internal audit to monitor and investigate incidences of fraud as and when they arise, but this has a consequential impact on the other work of the section. Each case needs to be investigated thoroughly, which reduces the amount of time that can be spent auditing, particularly if it results in disciplinary action or referrals to the police.	Since August 2015 a dedicated Corporate Fraud Team has been in place to investigate fraud.
4.3	A formal fraud response plan can help direct resource efficiently. Effective publicity and awareness-raising of fraud matters may also encourage the early reporting of fraud, reducing the resource required to investigate and rectify incidents.	See 4.1 above, work is planned to ensure that the Council complies with the CIPFA Code of Practice. However, in advance of this work, a publicity campaign has been initiated, supported by the Chair of the Audit & Scrutiny Committee.
5.	Other	
5.1	It is also becoming increasingly common for Heads of Audit to have line management responsibility for operational services, which affects the time that they are able to devote to audit and introduces potential issues regarding independence and objectivity.	The Head of Audit currently has responsibility for risk management in addition to internal audit. In addition, the Performance Team is to be transferred from Corporate Development, and it is proposed to create an Audit & Performance Section which will offer the opportunity to enhance performance management and link with financial management and best value reviews.