

27 March 2017

## **AUDIT AND ETHICS COMMITTEE – 4 APRIL 2017**

A meeting of the Audit and Ethics Committee will be held at 5.30pm on Tuesday 4 April 2017 in Committee Room 1 at the Town Hall, Rugby.

Adam Norburn  
Executive Director

### **A G E N D A**

#### **PART 1 – PUBLIC BUSINESS**

1. Minutes

To confirm the minutes of the meeting held on 14 February 2017.

2. Apologies

To receive apologies for absence from the meeting.

3. Declarations of Interest

To receive declarations of:

(a) non-pecuniary interests as defined by the Council's Code of Conduct for Councillors;

(b) pecuniary interests as defined by the Council's Code of Conduct for Councillors;  
and

(c) notice under Section 106 Local Government Finance Act 1992 – non-payment of Community Charge or Council Tax.

***Note: Members are reminded that they should declare the existence and nature of their non-pecuniary interests at the commencement of the meeting (or as soon as the interest becomes apparent). If that interest is a pecuniary interest the Member must withdraw from the room unless one of the exceptions applies.***

***Membership of Warwickshire County Council or any Parish Council is classed as a non-pecuniary interest under the Code of Conduct. A Member does not need to declare this interest unless the Member chooses to speak on a matter relating to their membership. If the Member does not wish to speak on the matter, the Member may still vote on the matter without making a declaration.***

4. Informing the Audit Risk Assessment for Rugby Borough Council
5. Draft External Audit Plan 2016/17
6. 2016/17 Internal Audit Plan Progress Update
7. 2017/18 Internal Audit Plan
8. Motion to Exclude the Public under Section 100(A)(4) of the Local Government Act 1972

To consider passing the following resolution:

“Under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items on the ground that they involve the likely disclosure of information defined in paragraphs 1, 2 and 3 of Schedule 12A of the Act.”

## **PART 2 – EXEMPT INFORMATION**

1. Health and Safety Internal Audit Report - Action Plan Update (report to follow)
2. Benn Hall Internal Audit Report - Action Plan Update (report to follow)
3. Whistle Blowing Incidents - Standing Item - to receive any updates
4. Fraud and Corruption Issues - Standing Item - to receive any updates

***Any additional papers or relevant documents for this meeting can be accessed here via the website.***

### **Membership of the Committee:**

Mr P Dudfield (Chairman), Mr J Eves (Vice-Chairman), Councillors Butlin, Mrs Crane, Mistry and Roodhouse

*If you have any general queries with regard to this agenda please contact Veronika Beckova, Democratic Services Officer (01788 533591 or e-mail [veronika.beckova@rugby.gov.uk](mailto:veronika.beckova@rugby.gov.uk)). Any specific queries concerning reports should be directed to the listed contact officer.*

*If you wish to attend the meeting and have any special requirements for access please contact the Democratic Services Officer named above.*

**AGENDA MANAGEMENT SHEET**

<b><i>Name of Meeting</i></b>	Audit and Ethics Committee
<b><i>Date of Meeting</i></b>	4 April 2017
<b><i>Report Title</i></b>	Informing the Audit Risk Assessment for Rugby Borough Council
<b><i>Ward Relevance</i></b>	Not ward specific
<b><i>Prior Consultation</i></b>	Chief Financial Officer (Head of Corporate Resources), Deputy Chief Financial Officer (Financial Services Manager), Corporate Assurance Manager
<b><i>Contact Officer</i></b>	Chris Blundell, Financial Services Manager , Tel: 01788 533410
<b><i>Report Subject to Call-in</i></b>	This report is not subject to Call-in
<b><i>Statutory/Policy Background</i></b>	International Standards on Auditing
<b><i>Summary</i></b>	This is a report from our appointed external auditor (Grant Thornton) which seeks to ensure that there is effective two-way communication between the Audit and Ethics Committee and the external auditor regarding the risks relating to the 2016/17 external audit of the Council.
<b><i>Financial Implications</i></b>	There are no financial implications arising from this report.
<b><i>Risk Management Implications</i></b>	There are no risk management implications arising from this report.
<b><i>Environmental Implications</i></b>	There are no environmental implications arising from this report.
<b><i>Equality and Diversity Implications</i></b>	There are no equality and diversity implications arising from this report.
<b><i>Legal Implications</i></b>	There are no legal implications arising from this report.
<b><i>Recommendation</i></b>	Committee confirm that it is satisfied with the arrangements currently in place identified in the appended report.

***Reasons for Recommendation***

The external auditor has a professional responsibility to ensure that there is effective two-way communication between the auditor and the Council's Audit and Ethics Committee to help reduce the risk of material misstatement.

**Audit and Ethics Committee – 4 April 2017**

**Informing the Audit Risk Assessment for Rugby Borough Council**

**Report of the Head of Corporate Resources and Chief Finance Officer**

**Recommendation**

The committee to confirm that it is satisfied with the arrangements currently in place identified in the appended report.

**Introduction**

Grant Thornton, the Council's appointed external auditor, has submitted a report on the arrangements currently in place to inform the audit risk assessment for the Council. This is appended for consideration.

Name of Meeting: Audit and Ethics Committee  
Date of Meeting: 4 April 2017  
Subject Matter: Informing the Audit Risk Assessment for Rugby Borough Council  
Originating Department: Corporate Resources

**LIST OF BACKGROUND PAPERS**

Document No.	Date	Description of Document	Officer's Reference	File Reference
1	4 April 2017	Informing the Audit Risk Assessment		



# Informing the audit risk assessment for Rugby Borough Council

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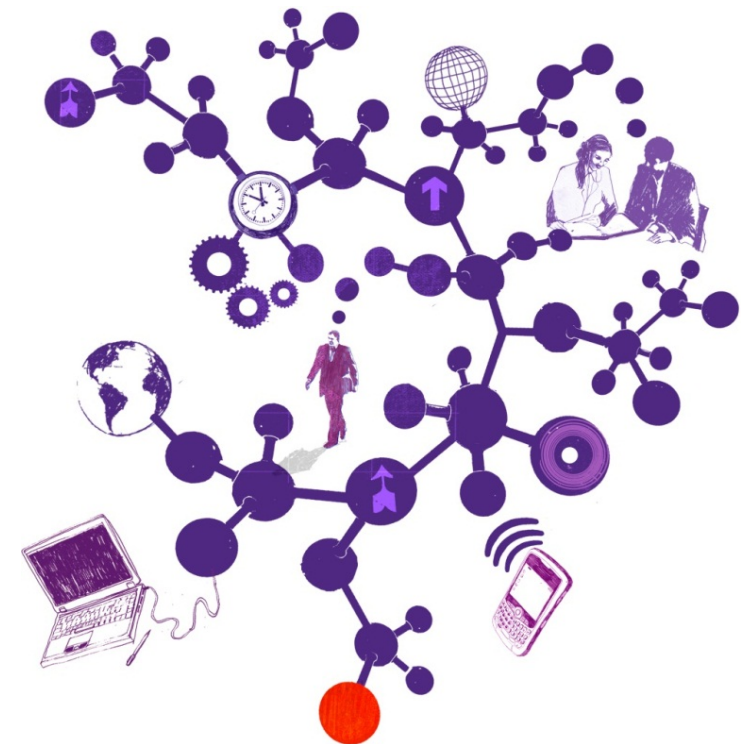
## Year ended

31 March 2017

**Grant Patterson**  
Engagement Lead  
T 0121 232 5296  
E [grant.b.patterson@uk.gt.com](mailto:grant.b.patterson@uk.gt.com)

**Paul Harvey**  
Engagement Manager  
T 0121 232 5329  
E [paul.m.harvey@uk.gt.com](mailto:paul.m.harvey@uk.gt.com)

**Denise Mills**  
In Charge Auditor  
T 0121 232 5306  
E [denise.f.mills@uk.gt.com](mailto:denise.f.mills@uk.gt.com)



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



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# Purpose

The purpose of this report is to contribute towards the effective two-way communication between external auditors and Rugby Borough Council Borough Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

## Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- Fraud
- Laws and regulations
- Going concern
- Related Parties
- Accounting estimates

This report includes a series of questions on each of these areas and the responses we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# Fraud

## Issue

### Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with management and the Audit and Ethics Committee who consider the control framework.

Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

# Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud or error? What are the results of this process?</p>	<p><i>The financial statements are subject to internal quality assurance control checks including : i) checks for high risk activities and ii) analytical reviews with the objective of identifying any significant year on year variances.</i></p> <p><i>A risk assessment process related to the preparation of accounts is completed based upon the audit issues raised by both Internal and External Audit.</i></p> <p><i>The monthly monitoring of service revenue and capital budgets will identify any risk of material misstatements.</i></p>
<p>What processes does the Council have in place to identify and respond to risks of fraud</p>	<p><i>The corporate governance framework is reviewed by the Audit and Ethics Committee, for the risk of fraud in relation to the Council's control environment.</i></p> <p><i>The Audit and Ethics Committee consider all internal audit reports where there is limited/no assurance, from a control environment and a risk of fraud perspective, this is in line with the agreed audit protocol.</i></p> <p><i>The annual report from the Corporate Assurance <b>and Improvement</b> Manager on the adequacy of Internal Control, will also identify fraud risk areas.</i></p> <p><i>Investigations of suspected fraud, as a result of cases brought to the attention of the Monitoring Officer, are carried out by the Internal Audit team.</i></p> <p><i>The Corporate Assurance <b>and Improvement</b> Manager, keeps the Executive Director and s151 officer informed of any fraud investigations and periodically provides the Audit and Ethics Committee with fraud activity report updates as necessary.</i></p> <p><b><i>In 2016/17 the Corporate Assurance and Improvement Manager completed a full assessment of fraud, bribery and corruption risks across all Council departments. The results were reported to the Strategic Risk Management Group and the Audit &amp; Ethics Committee.</i></b></p> <p><b><i>The arrangements for the prevention of fraud are considered adequate.</i></b></p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p><b><i>A full assessment of fraud, bribery and corruption risks was undertaken during 2016/17. Where the level of risk was assessed as being Medium or Higher, mitigating actions were identified and recorded. Delivery of these actions is being monitored through the Council's performance management system. The assessment did not identify any specific fraud risks which were rated as being 'High'</i></b></p>

# Fraud risk assessment

Question	Management response
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p><i>Yes, where segregation of duties cannot be maintained on a person by person basis they are maintained on a process by process basis. Any issues relating to this would be covered within Internal Audit investigations.</i></p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p><i>Thorough budget monitoring carried out by Financial Services would identify any deviations from the Council's policies and procedures. Any retrospective adjustments to expenditure would require one officer to authorise the amendment and a second officer to process the transaction therefore maintaining a segregation of duties.</i></p>
<p>How does the Audit and Ethics Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What arrangements are in place to report fraud issues and risks to the Audit and Ethics Committee?</p>	<p><i>The reporting of fraud issues to Audit and Ethics Committee is made by various Methods: i) Investigation reports by the Corporate Assurance <b>and Improvement</b> Manager as a result of the Whistleblowing Policy ii) Reports by the Head of Corporate Resources and iii) Annual Governance Statement report for Internal Control and includes any fraud risk. Fraud and Corruption are a standing item on the Audit and Ethics Committee Agenda iv) With effect from 2016/17 the Corporate Assurance and Improvement Manager will submit an annual report on counter fraud activity for consideration by the Audit &amp; Ethics Committee.</i></p>
<p>How does the Council communicate and encourage appropriate business practice and ethical behaviour of its employees and contractors?</p>	<p><i>The updated code of conduct for members and employees outlines the Council's expectations for business practice and ethical behaviour. Employees are aware of the antifraud and corruption strategy - details are available on the Intranet. The <b>Corporate Assurance and Improvement Manager</b> investigates all employee concerns for suspected fraud. The Fraud and Corruption Strategy also applies to the Council's contractors in addition to relevant terms and conditions printed on the reverse of any orders that are placed with a contractor. <b>A Fraud Response Plan was developed and approved in February 2017.</b></i></p>

## Fraud risk assessment (continued)

Question	Management response
How do you encourage employees to report their concerns about fraud? Have any significant issues been reported?	<p><i>The Council has a Confidential Reporting Code which allows employees to report any concerns regarding fraud, unethical behaviour or corruption to the Monitoring Officer or the Corporate Assurance and Improvement Manager. No significant issues have been reported.</i></p> <p><i>Furthermore there is a Benefits/Whistleblowing reporting line which is monitored by the Council's Counter Fraud Specialist. These are treated as benefits investigations.</i></p>
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	<p><i>Most of the related party transactions that could give rise to potential fraud are those in which councillors have a direct interest.</i></p> <p><i>Risks are mitigated, by the councillor declarations of interest and non participation in debates linked to these declarations.</i></p>
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2016? If so how does the Audit Committee respond to these	<p><b><i>There have been 3 instances of actual, alleged or suspected fraud since 1 April 2016. All cases were fully investigated and all investigations have been completed and closed. Fraud and Corruption is reported as a standing item on the Audit and Ethics Committee Agenda.</i></b></p>
Are you aware of any whistle-blower reports or reports under the Bribery Act since 1 April 2016? If so how does the Audit Committee respond to these	<p><b><i>There have been no whistle-blower reports since 1 April 2016. There have been no reports under the Bribery Act since 1 April 2016. Fraud and Corruption is reported as a standing item on the Audit &amp; Ethics Committee agenda.</i></b></p>

# Laws and regulations

## Issue

### Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of Laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	<p><i>It is managers' responsibility to ensure that all relevant laws and regulations for their service area are complied with. This requirement forms part of their contract of employment. When a service is audited, one of the areas reviewed is compliance with relevant laws and regulations.</i></p> <p><i>Where breaches are identified the Corporate Assurance and Improvement Manager and Monitoring Officer should be informed.</i></p>
How does management gain assurance that all relevant laws and regulations have been complied with?	<p><i>The Monitoring Officer will advise the Council's Leadership and Operations team and councillors as appropriate.</i></p>
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	<p><i>Assurance over compliance with the Council's Constitution is provided through the Annual Governance Statement reported to Audit and Ethics Committee.</i></p>
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2016 with an on-going impact on the 2016/17 financial statements?	<p><i>No</i></p>
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	<p><i>Any potential claims are received by either the Councils' Legal Services team or the Risk Management and Insurance Officer. All claims registered with the latter are passed directly to the Council's insurers.</i></p>
Are there any actual or potential litigation or claims that would affect the 2016/17 financial statements?	<p><i>No</i></p>
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	<p><i>No</i></p>



# Going Concern

## Issue

### **Matters in relation to going concern**

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements for the Council. The accounting concept of going concern refers to the basis of measurement of an organisation's assets and liabilities in its accounts (that is the basis on which those assets and liabilities are recorded and included in the accounts)

Entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. If the entity could not continue as a going concern, assets and liabilities would need to be recorded in the accounts on a different basis, reflecting their value on the winding up of the entity. Consequently, assets would be likely to be recorded at a much lower break-up value and medium – and long- term liabilities would become short-term liabilities.

The Council is not subject to the same future trading uncertainties as private sector entities. However, consideration of the key features of the going concern provides an indication of the Council's financial resilience. It may indicate that some classes of assets or liabilities should not be valued on an on going basis.

Going concern considerations have been set out below and management has provided its response.

# Going Concern Considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	<i>An updated Medium Term Financial Plan is reported to Cabinet throughout the budget setting process and forms part of the Council Tax Setting process.</i>
Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	<i>No.</i>
Are arrangements in place to report the going concern assessment to the Audit Committee? How has the Audit and Ethics Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?	<i>The Council's financial statements are reported directly to the Audit and Ethics Committee prior to approval by Full Council. A key aspect of the external audit of the statements is the opinion that the Council remains a going concern, so Audit and Ethics Committee can directly question both the Chief Financial Officer and the External Auditor about any concerns it may have.</i>
Are the financial assumptions in that report (e.g. future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	<i>Yes.</i>

## Going Concern Considerations (continued)

Question	Management response
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts?	Yes.
Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No.
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	No.
Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	Yes.

# Related Parties

## Issue

### Matters in relation to Related Parties

**Local Authorities** are required to comply with International Accounting Standard 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e. subsidiaries);
- associates and/or joint ventures;
- an entity that has an interest in the Council that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related party considerations have been set out below and management has provided its response.

## Related Parties (continued)

Question	Management response
<p>What controls does the Council have in place to identify, account for, and disclose, related party transactions and relationships?</p>	<p><i>Councillors and officers cannot and do not participate in decisions where they are a related party.</i></p> <p><i>Annual accounts disclosures for related parties and transactions are reviewed for completeness by the Financial Services Manager and the Council's Monitoring Officer as part of the Annual Declaration of Interests.</i></p>
<p>Who have the Council identified as related parties?</p>	<p><i>Central government bodies e.g. Department for Works and Pensions</i></p> <p><i>Warwickshire County Council and Warwickshire Office of the Police and Crime Commissioner.</i></p> <p><i>Rugby Borough Parish Councils</i></p> <p><i>Council Members and Chief Officers</i></p> <p><i>Voluntary and Outside Bodies e.g. Local Government Association, Rugby First</i></p> <p><i>Rainsbrooke Crematorium Joint Committee</i></p> <p><i>Greenwich Leisure Ltd (GLL) – operator of the Queens Diamond Jubilee leisure centre</i></p>

# Accounting Estimates

## Issue

### Matters in relation to Accounting Estimates

Local Authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. This objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identified the transactions, events and conditions that may give rise to the need to an accounting estimate

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council are using as part of their accounts preparation: these are detailed in appendix 1 to this report.

The audit procedures we conduct on the accounting estimate will demonstrate that:

- The estimate is reasonable
- Estimates have been calculated consistently with other accounting estimates within the financial statements.

# Accounting Estimates

Question	Management response
Are the management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgment?	<i>A provision for losses arising from refunds due on appeal to Business Rate valuations.</i>
Are the management arrangements for the accounting estimates as detailed in Appendix 1 reasonable?	Yes.
How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	<i>This is covered within the process for approval of the Council's financial statements which are reported directly to the Audit and Ethics Committee prior to approval by Full Council.</i>

# Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant and equipment valuations	Valuations are made by the valuer (local RICS/CIB Member) inline with RICS guidance on the basis of 5 year valuations with interim reviews	Capital Accountant notifies the valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation	Yes – use of local RICS/CIB Member for valuations.	Valuations are made in-line with RICS guidance – reliance on expert	No
Estimated remaining useful lives of PPE	The following asset categories have general asset lives: <ul style="list-style-type: none"> <li>· Buildings 5-60 years</li> <li>· Equipment/vehicles 3-25 years</li> <li>· Plant 3-25 years</li> <li>· Infrastructure 7-40 years</li> </ul>	Consistent asset lives applied to each asset category	Yes – use of local RICS/CIB Member for valuations.	The method makes some generalisations. For example, buildings tend to have a useful life of 50 years, although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction materials used. Overall, the length of life would reflect the views of the qualified RICS or CIB Member.	No



## Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and amortisation	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis	Consistent application of depreciation method across all assets	Yes – us of the local RICS/CIB Member for valuations	<p>The length of the life is determined at the point of acquisition or revaluation according to:</p> <ul style="list-style-type: none"> <li>· Assets acquired in the first half of a financial year are depreciated on the basis of a full year's charge; assets acquired in the second half are not depreciated until the following financial year.</li> <li>· Assets that are not fully constructed are not depreciated until they are brought into use.</li> </ul>	No

## Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired	Yes – use of the local RICS/CIB Member for valuations	Valuations are made in line with RICS guidance – reliance on experts	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<p>Non adjusting events – events after the BS date</p> <p>For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.</p>	<p>S151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an un-adjusting event.</p>	<p>Heads of Service notify the S151 Officer</p>	<p>This would be considered on individual circumstances</p>	<p>This would be considered on individual circumstances</p>	<p>N/A</p>

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	Council Values financial instruments at fair value based on the advice of their external treasury consultants and other financial professionals	Take advice from finance professionals	Yes – treasury consultants	Take advice from finance professionals	No
Bad debt provision	A provision is estimated using a proportion basis of an aged debt listing	The Financial Services team calculate the provision	No	Consistent proportion used across aged debt	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provision for liabilities	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Quarterly monitoring of expected losses.  Use of external experts to inform likelihood and magnitude of future losses.	Yes – in relation to the provision for losses from Business Rate Appeals	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	No
Accruals	Financial Services collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Activity is accounted for in the financial year that it takes place, not when money is paid or received.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest information has been used.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
IAS19 Pensions Post Employment Liabilities	Estimation of the pensions liability depends on a number of complex judgements and assumptions relating to the discount rate, the future value of the assets and liabilities of the pension schemes, the rate of increase in pay, changes in retirement ages and mortality rates.	A firm of consulting actuaries is engaged by Warwickshire authorities with expert advice about the assumptions applied.	Yes -Hymans Robertson	This is a major source of estimation. It depends on a number of complex judgements which interact in complex ways. The actuaries model thousands of possible outcomes in order to establish what the world might look like over the long term.	No



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**AGENDA MANAGEMENT SHEET**

<b><i>Name of Meeting</i></b>	Audit and Ethics Committee
<b><i>Date of Meeting</i></b>	4 April 2017
<b><i>Report Title</i></b>	Draft External Audit Plan 2016/17
<b><i>Ward Relevance</i></b>	Not ward specific
<b><i>Prior Consultation</i></b>	Chief Financial Officer (Head of Corporate Resources) Deputy Chief Financial Officer (Financial Services Manager)
<b><i>Contact Officer</i></b>	Chris Blundell Financial Services Manager Tel: 01788 533410
<b><i>Report Subject to Call-in</i></b>	This report is not subject to Call-in.
<b><i>Statutory/Policy Background</i></b>	The Local Audit and Accountability Act 2014 The Accounts and Audit Regulations 2015 The Code of Audit Practice
<b><i>Summary</i></b>	The Draft Audit Plan for 2016/17 has been developed by our appointed external auditor (Grant Thornton) and sets out the proposed external audit work and fee relating to the 2016/17 annual audit at Rugby.
<b><i>Financial Implications</i></b>	The proposed fee for the 2016/17 annual audit can be met from existing budget provision.
<b><i>Risk Management Implications</i></b>	There are no risk management implications arising from this report.
<b><i>Environmental Implications</i></b>	There are no environmental implications arising from this report.
<b><i>Equality and Diversity Implications</i></b>	There are no equality and diversity implications arising from this report.
<b><i>Legal Implications</i></b>	There are no legal implications arising from this report.
<b><i>Recommendation</i></b>	The Draft External Audit Plan and fee for 2016/17 be approved.



***Reasons for Recommendation***

The Draft External Audit Plan 2016/17 proposes an appropriate level and scope of external audit work to audit the 2016/17 statement of accounts and give an opinion on the Council's value for money arrangements. Appointed Auditor's work and findings and the charges relating to their work.

**Audit and Ethics Committee – 4 April 2017**

**Draft External Audit Plan 2016/17**

**Report of the Head of Corporate Resources**

**Recommendation**

The Draft External Audit Plan and proposed fee for 2016/17 be approved.

**Background**

Grant Thornton, the Council's appointed external auditor, has submitted their Draft External Audit Plan and fee proposal for the 2016/17 annual audit following consultation with the Chief Financial Officer and Deputy Chief Financial Officer. This is appended for approval. Paul Harvey from Grant Thornton will attend the meeting to present the report.

Name of Meeting: Audit and Ethics Committee  
Date of Meeting: 4 April 2017  
Subject Matter: Draft External Audit Plan 2016/17  
Originating Department: Corporate Resources

**LIST OF BACKGROUND PAPERS**

There are no background papers relating to this item.



# The Audit Plan for Rugby Borough Council

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**Year ended 31 March 2017**

4 April 2017

**Grant Patterson**  
Engagement Lead  
T 0121 232 5296  
E [grant.b.patterson@uk.gt.com](mailto:grant.b.patterson@uk.gt.com)

**Paul Harvey**  
Engagement Manager  
T 0121 232 5329  
E [paul.m.harvey@uk.gt.com](mailto:paul.m.harvey@uk.gt.com)

**Denise Mills**  
In charge auditor  
T 0121 232 5306  
E [denise.f.mills@u.gt.com](mailto:denise.f.mills@u.gt.com)





Rugby Borough Council  
Town Hall  
Evreux Way  
Rugby  
CV21 2RR  
4 April 2017

Grant Thornton UK LLP  
The Colmore Building  
Colmore Plaza  
Birmingham  
B4 6AT  
T +44 (0) 121 212 4000  
F +44 (0) 121 212 4014  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

Dear Members of the Audit and Ethics Committee

**Audit Plan for Rugby Borough Council for the year ending 31 March 2017**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Rugby Borough Council, this is the Council but we have determined that the Audit and Ethics Committee is the sub-group with whom we shall communicate throughout the year and ensure the Council sees relevant reports), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We look forward to working with you during the course of the audit.

Yours sincerely

**Grant Patterson**  
Engagement Lead

**Chartered Accountants**

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Communication of audit matters with those charged with governance

# Understanding your business and key developments

Developments	Key challenges	Financial reporting changes
<p><b>New Homes Bonus</b></p> <p>The Local Government Finance settlement announced on 15<sup>th</sup> December 2016 included details of the changes to eligibility for New Homes Bonus. Councils will no longer receive money from the scheme for new homes built until the increase exceeds the national housing growth baseline, to be set at 0.4% The Government is also considering withholding payments to councils that fail to meet planning targets from 2018/19.</p> <p><b>Impact of Brexit</b></p> <p>As details of the plan for Brexit begin to emerge, a successful transition will be dependent on knowing where potential challenges face the Council, and ensuring that sound financial and risk management processes are in place to respond.</p>	<p><b>Autumn Statement</b></p> <p>The Chancellor detailed plans in the Autumn Statement to increase the National Living Wage from £7.20 to £7.50 an hour in April 2017. The plan alongside other reductions in government support including reductions in Revenue Support Grant, proposed changes to New Homes Bonus funding and changes to National Insurance contribution rates represents a major challenge to the future financial stability of the Council.</p> <p><b>Financial Planning</b></p> <p>Reforms to local government finance seek to provide greater financial stability for local authorities. The four year settlement proposes to phase out Revenue Support Grant (RSG), and instead allow for 100% business rates retention in the hope of providing a more sustainable and self-sufficient local government.</p> <p>The Council presented the updated MTFS 2017/18 to 2019/20 to Cabinet in February 2017. This has a balanced budget for 2017/18 but indicates a forecast budget shortfall totalling £1.07m across 2018/19 and 2019/20. The Senior Management Team are building upon the work already done to identify savings opportunities to find ways of eliminating the shortfall.</p>	<p><b>CIPFA Code of Practice 2016/17 (the Code)</b></p> <p>Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.</p> <p>The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.</p> <p><b>Earlier closedown</b></p> <p>The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.</p> <p>The Council are using 2016/17 as a 'dry run' to identify any issues before the new deadlines come into effect in 2017/18.</p>

Our response
<ul style="list-style-type: none"> <li>• We aim to complete all our substantive audit work of your financial statements by 28 July 2017.</li> <li>• As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code</li> <li>• We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.</li> </ul>

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,081k (being 2% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £54k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Related Party Transactions	Due to public interest in these disclosures and the statutory requirement for them to be made we have set a materiality level of £20k to inform our audit approach and our reporting to you. We recognise that in compiling the disclosure, the Council will apply its own assessment of materiality and (as required by IAS24) also have regard to materiality from the perspective of the other party.	£20k but also needs to take into account the significance of the transaction to the other party.
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)



# Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
<b>Management override of controls</b>	Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Review of accounting estimates, judgments and decisions made by management</li> <li>Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</li> <li>Review of unusual significant transactions</li> </ul>
<b>Changes to the presentation of local authority financial statements</b>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p><b>Work planned:</b></p> <p>We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements. We will:</p> <ul style="list-style-type: none"> <li>review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure.</li> <li>review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).</li> <li>test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.</li> <li>test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.</li> <li>review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

## Significant risks identified (continued)

Significant risk	Description	Audit procedures
<p><b>Valuation of pension fund net liability</b></p>	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.</li> <li>• We will undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>
<p><b>The revenue cycle includes fraudulent transactions</b></p>	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Rugby Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Rugby Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore do not consider this to be a significant risk for Rugby Borough Council.</p>

## Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses	Year end creditors and accruals are understated or not recorded in the correct period.	<p><b>Work completed to date:</b></p> <p>Documented the processes and controls in place around the accounting for operating expenses and undertaken a walkthrough test to confirm operation of these controls.</p> <p>Tested a sample of operating expenses covering the periods 1 – 11 to ensure they have been accurately accounted for.</p> <p>No issues were identified.</p> <p><b>Further work planned:</b></p> <p>We will:</p> <ul style="list-style-type: none"> <li>• Undertake cut off testing of purchase orders and goods received notes (both before and after year end)</li> <li>• Review the year end accruals process.</li> <li>• Review the year end control account reconciliations</li> <li>• Undertake unrecorded liabilities testing of payments after year end</li> <li>• Test a sample of operating expenses covering the remainder of the financial year to ensure they have been accurately accounted for,</li> <li>• Test a sample of creditor balances at 31/3/17.</li> </ul>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

# Other risks identified

Reasonably possible risks	Description of risk	Audit procedures
Employee remuneration	Employee remuneration accruals are understated	<p><b>Work completed to date:</b></p> <p>Documented the processes and controls in place around the accounting for employee remuneration and undertaken a walkthrough test to confirm operation of these controls.</p> <p>Tested a sample of payroll expenditure from a sample of employees covering the periods 1 – 9.</p> <p>No issues were identified.</p> <p><b>Work Planned:</b></p> <p>We will:</p> <ul style="list-style-type: none"> <li>• Review the year end control account reconciliations.</li> <li>• Review monthly trend analysis of total payroll.</li> <li>• Undertake testing of payroll expenditure from a sample of employees for the remainder of the financial year.</li> <li>• Test a sample of payments made in April and May 2017 to ensure payroll expenditure is recorded in the correct year</li> </ul>

## Other risks identified (continued)

### Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

### Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Heritage assets
- Assets held for sale
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- New note disclosures
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

# Value for Money

## Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

This is supported by three sub-criteria as set out opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</li> <li>Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>Managing risks effectively and maintaining a sound system of internal control</li> </ul>
Sustainable resource deployment	<ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>Managing and utilising assets effectively to support the delivery of strategic priorities</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
Working with partners and other third parties	<ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities</li> <li>Commissioning services effectively to support the delivery of strategic priorities</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>

# Value for Money (continued)

## **Risk assessment**

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies,
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. These are set out overleaf.

. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.

## **Reporting**

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by 30 September 2017.

## Value for Money (continued)

Significant risk	Link to sub-criteria	Work proposed to address
<p><b>Financial Standing</b> The Council presented the updated MTFS 2017/18 to 2019/20 to Cabinet in February 2017. This has a balanced budget for 2017/18 but indicates a forecast budget shortfall totalling £1.07m across 2018/19 and 2019/20. The Senior Management Team, are building upon the work already done to identify savings opportunities to find ways of eliminating the shortfall.</p>	<p>This links to the Council's arrangements for understanding and using appropriate cost and performance information to support informed decision making; and planning finances effectively to support the sustainable delivery of strategic priorities.</p>	<p>Discuss key strategic challenges and the Council's proposed response. Review of reports to members on:</p> <ul style="list-style-type: none"> <li>a) the outturn position for 2016/17 and the budget plans up to 2019/20</li> <li>b) the Council's progress in updating its medium term financial strategy and progress against savings plans.</li> </ul>



## Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
  - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

## Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

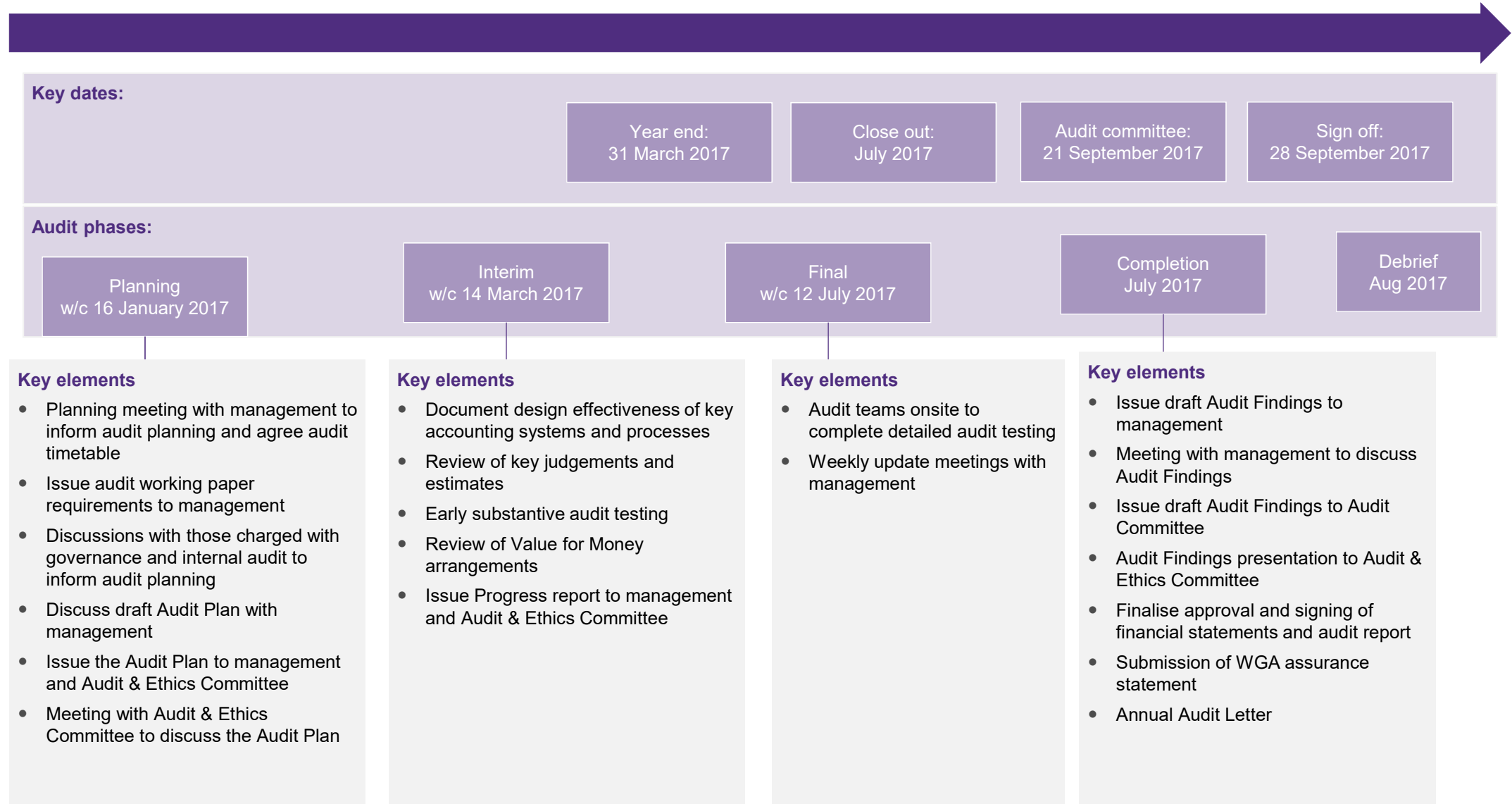
	Work performed	Conclusion
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>
<b>Review of information technology controls</b>	<p>Our information systems specialist is scheduled to perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p>	<p>The work was scheduled to be undertaken in February 2017. Due to staff availability at the Council this work will need to be rescheduled. As the IT control environment underpins our overall audit approach it will need to be completed ahead of our final accounts.</p>

## Results of interim audit work (continued)

	Work performed	Conclusion
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding</p>	Our work has not identified any weaknesses which impact on our audit approach
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention.</p>	Our work has not identified any weaknesses which impact on our audit approach
<b>Early substantive testing</b>	<p>We have undertaken early testing for periods 1 – 11 for the following areas:</p> <ul style="list-style-type: none"> <li>- Sundry income</li> <li>- Operating Expenses</li> <li>- Housing benefit payments</li> </ul> <p>We have undertaken early testing for periods 1 – 9 for the following area:</p> <ul style="list-style-type: none"> <li>- Employee remuneration</li> </ul> <p>We have selected as sample of deeds for review at our final visit.</p>	<p>Our work undertaken to date has not identified any issues.</p> <p>We will test the remainder of the financial year at our final visit.</p> <p>We review and test the deeds selected at our final visit.</p>

# The audit cycle

## The audit timeline



# Audit Fees

## Fees

	£
Council audit	54,968
Grant Certification (indicative PSAA scale fee)	6,540
<b>Total audit fees (excluding VAT)</b>	<b>61,508</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## Fees for other services

Currently no fees for other services have been agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

## What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes, and identifying potential risks, opportunities and savings
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

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# Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓



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**AGENDA MANAGEMENT SHEET**

<b><i>Name of Meeting</i></b>	Audit and Ethics Committee
<b><i>Date of Meeting</i></b>	4 April 2017
<b><i>Report Title</i></b>	2016/17 Internal Audit Plan Progress Update
<b><i>Portfolio</i></b>	Corporate Resources
<b><i>Ward Relevance</i></b>	None
<b><i>Prior Consultation</i></b>	Head of Corporate Resources and Chief Finance Officer
<b><i>Contact Officer</i></b>	Chris Green, Corporate Assurance and Improvement Manager, Tel: 01788 533451
<b><i>Report Subject to Call-in</i></b>	This report is not subject to Call-In because the Committee has specific responsibility to review the work of the internal audit function and the framework of policies and standards within which it operates.
<b><i>Statutory/Policy Background</i></b>	Public Sector Internal Audit Standards (PSIAS)
<b><i>Summary</i></b>	The report sets out progress against delivery of the Internal Audit Plan for 2016/17.
<b><i>Risk Management Implications</i></b>	There are no risk management implications arising directly from this report.
<b><i>Financial Implications</i></b>	There are no financial implications arising directly from this report.
<b><i>Environmental Implications</i></b>	There are no environmental implications arising from this report.
<b><i>Equality and Diversity</i></b>	There are no Equality and Diversity implications arising from this report.
<b><i>Legal Implications</i></b>	There are no legal implications arising from this report.
<b><i>Recommendation</i></b>	That the report be considered and noted.
<b><i>Reasons for Recommendation</i></b>	To comply with the requirements of the terms of reference of the Audit and Ethics Committee, and to discharge the Committee's responsibilities under the Constitution.

**Audit and Ethics Committee – 4 April 2017**

**2016/17 Internal Audit Plan Progress Update**

**Report of the Head of Corporate Resources and Chief Finance Officer**

**Recommendation**

That the report be considered and noted.

**1. Introduction**

- 1.1** The purpose of this report is to set out progress against the Internal Audit Plan for 2016/17.

The Council has a legal duty to maintain an adequate and effective Internal Audit service. The primary role of Internal Audit is to provide independent assurance that the Council has put in place appropriately designed internal controls to ensure that:

- the Council's assets and interests are safeguarded;
- reliable records are maintained;
- Council policies, procedures and directives are adhered to; and
- services are delivered in an efficient, effective and economic manner.

This work is normally referred to as Section 151 work.

**2. Summary of Audit Work**

- 2.1** The Internal Audit Plan for 2016/17 was approved by the Audit and Ethics Committee on 11 May 2016. Progress against delivery of that plan is set out at Appendix A.

- 2.2** Appendix A also sets out the progress against the recommendations made by Internal Audit for 2015/16 and the current financial year.

**3. Revisions to the 2016/17 Audit Plan**

The Committee's role as gatekeeper requires it to approve any significant changes to the internal audit plan, in accordance with the Public Sector Internal Audit Standards. It is also good practice to continually review the audit plan in light of emerging issues, to ensure that the work of internal audit adds maximum value by proactively responding to and aligning its work with the most significant risks facing the organisation. There are no proposed changes to the internal audit plan at this time.

Name of Meeting: Audit and Ethics Committee  
Date of Meeting: 4 April 2017  
Subject Matter: 2016/17 Internal Audit Plan Progress Update  
Originating Department: Corporate Assurance and Improvement

**LIST OF BACKGROUND PAPERS**

Document No.	Date	Description of Document	Officer's Reference	File Reference
Appendix A	4 April 2017	Internal Audit Progress Update		



INTERNAL AUDIT PROGRESS UPDATE  
APRIL 2017

## ***Introduction***

- 1.1 The Public Sector Internal Audit Standards (the Standards) require the Audit and Ethics Committee to scrutinise the performance of Internal Audit and to satisfy itself that it is receiving appropriate assurance that the controls put in place by management address the identified risks to the Council. This report aims to provide the Committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last Committee meeting, updates on the implementation of actions arising from audit reports and an overview of the performance of the team.

## ***Performance***

### **2.1 Will the Internal Audit Plan be delivered?**

The expected position by the date of the Committee meeting is as follows:

- 15 assignments have been completed;
- 7 assignments are at draft report stage;
- 2 assignments are still in progress.

There are 2 assignments for which draft reports have not yet been issued (BID and discretionary/consultant expenditure); however, fieldwork on both assignments is in progress and only a relatively small amount of additional time will be required to complete these assignments and to finalise audit reports which are currently at the draft stage. The internal target of issuing 90% of audit reports in draft has been achieved.

Progress on individual assignments is shown at pages 6 to 9 of this report.

### **2.2 Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council's Control Framework?**

At this stage there are no emerging issues arising from the work of Internal Audit which impact upon the Internal Audit opinion of the Council's Control Framework, although the Corporate Health and Safety audit highlighted a number of high priority actions.

Two assignments have been completed and finalised since the last meeting in February 2017, and the results of those assignments are summarised below:

ICT Systems Administration Assurance Rating: Substantial. Risk Exposure: Medium

Review of the design of controls within the system and their effectiveness in operation indicated that Substantial Assurance could be provided with a medium level of risk exposure. User account management will always be an ongoing task for systems administrators and whilst some issues were identified there are pro-active projects in progress to minimise the risks of unauthorised access to, and changes to, Council systems.

The review confirmed that:

- the password policy meets with general good practice;
- there is a regular review of HR records to ensure that user access to systems is removed where necessary; and
- there are appropriate system change request procedures in place.

The review also highlighted that, whilst regular review of HR records takes place, this does not include agency staff or contractors who may have been granted access to systems. Testing identified approximately 50 active accounts which did not match with HR records. A full review of such accounts is being undertaken by the IT department.

Three medium and four low priority actions were agreed with management, delivery of which will be monitored by the Corporate Assurance and Improvement Team. At the time of writing five of the seven agreed actions had already been implemented, including the review of active accounts which did not match with HR records.

### Equality and Diversity Consultative Review

Internal Audit reviewed the quality of Equality Impact Assessments (EIAs) to ensure that appropriate evidence is retained explaining either why assessments have not been conducted or, where an EIA has been conducted, the basis of the conclusion reached.

The review found the content of the EIAs inspected to be of a reasonable standard. Some of the assessments could benefit from more detail in certain areas. For example rarely are the dates of consultation meetings, reference material versions or source document dates detailed in the Information gathering section, resulting in a less robust evidence trail.

The discussions with Managers generally revealed a good level of understanding of the Equality and Diversity issues with, not only the groups with protected characteristics covered under the legislation, but also more broadly with the vulnerable groups such as low income families or the homeless.

There appeared to be a little uncertainty as to the process for forwarding the EIA documentation to the Corporate Equality and Diversity Advisor and a failure, for the most part, to stipulate the date of completion and review on the form. This could mean that the accuracy and completeness of the EIA Register, which is now published on the Extranet, is compromised.

### **2.3 Are clients progressing audit recommendations with appropriate urgency?**

At the date of reporting, all management actions have been implemented by the agreed implementation date. Implementation of the actions will continue to be monitored by the Corporate Assurance and Improvement Team and reported to each Committee meeting.

An analysis of progress on implementation of audit recommendations is shown at pages 10 and 11. Management progress on the implementation of audit recommendations remains strong. At the time of reporting all 16 recommendations

made in 2015/16 have been implemented on time. 45 recommendations have been made so far during 2016/17, 15 of which (33%) have been implemented on time. The remainder are not yet due for implementation.

## 2.4 Internal Audit Performance Indicators

The effectiveness with which Internal Audit discharges its section 151 responsibilities is being measured by the following indicators, as agreed by the Audit and Ethics Committee in May 2016:

<b><u>Theme</u></b>	<b><u>Title of Performance Indicator</u></b>	<b><u>Current Performance</u></b>
Delivery	Delivery of the Internal Audit Plan – Percentage of assignments delivered to at least draft report stage by 31 March 2017	90%  18 out of 20 reports issued to at least draft report stage*
Adding Value	Customer Satisfaction – Average Rating	Average score 2.75  3 = Good 2 = Satisfactory 1 = Poor
Timeliness	Timeliness of Reporting – Percentage of draft reports issued within 10 working days of assignment fieldwork completion	83% - Two reports were issued more than 10 days after fieldwork completion. The average time between fieldwork completion and draft report issue is currently 8.3 days
Effectiveness	Implementation of Agreed Actions – Percentage either fully or partially implemented on time	100% - no recommendations have been implemented late in 2016/17

\* Whilst there were 24 assignments in the annual plan, 4 assignments did not require a formal report (NFI co-ordination, Change Management, Fraud Awareness and one corporate investigation).

## ***Limitations and Responsibilities***

### ***Limitations inherent to the Internal Auditor's work***

Internal Audit is undertaking a programme of work agreed by the council's senior managers and approved by the Audit and Ethics Committee subject to the limitations outlined below.

### ***Opinion***

Each audit assignment undertaken addresses the control objectives agreed with the relevant responsible managers. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work were excluded from the scope of individual internal audit assignments, or were not brought to the attention of Internal Audit. As a consequence, the Audit and Ethics Committee should be aware that the Audit Opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to Internal Audit's attention.

### ***Internal Control***

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others management overriding controls, and unforeseeable circumstances.

### ***Future Periods***

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- the degree of compliance with policies and procedures may deteriorate.

### ***Responsibilities of Management and Internal Auditors***

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance, and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.



**Progressing the Annual Internal Audit Plan**

<b>KEY</b>
Current status of assignments is shown by ✓

Assignment	Budget	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Financial Risks									
Financial System Key Controls	30					✓			Draft report issued
Counter Fraud									
Fraud Awareness	10				✓			Not Graded	Training package prepared. Member training to be held in April/ May. Rolling programme of team training to be delivered in 2017/18.
Fraud Risk Review	10						✓	Substantial	It was concluded that “the Council’s controls were generally appropriate to the risks identified”.
ICT									
Disaster Recovery and Backup	10					✓			Draft report issued
Systems Administration	5						✓	Substantial	Refer to comments at Pages 2-3
Helpdesk	10						✓	Substantial	Reported to the committee in February 2017
Payment Card Industry Data Security Standards	5					✓			Draft report issued

Assignment	Budget	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Corporate Risks									
Business Continuity/ Emergency Planning	15					✓			Draft report issued
Change Management – Consultancy Support	15				✓			Not Graded	<p>Complete. Assistance has been/is being provided in the following areas:</p> <ul style="list-style-type: none"> <li>• Electronic mileage claim processing</li> <li>• Document retention procedures</li> <li>• Gifts and Hospitality procedures</li> <li>• Systems administration – paperless working</li> <li>• Potentially Violent Persons review</li> <li>• Agency staff commissioning arrangements</li> <li>• Introduction of charging for green waste collection</li> </ul>
Income, Fees and Charges	20					✓			Draft report issued
Discretionary/ Consultant Expenditure	15			✓					In progress

Assignment	Budget	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Corporate Health and Safety	35						✓	Limited	Reported to the committee in February 2017
Procurement and Contract Management	20						✓	Substantial	Reported to the committee in February 2017
Business Improvement District	15			✓					In progress
Operational Risks									
Equalities and Diversity (Consultancy)	10						✓	Not Graded	Refer to comments at pages 2-3
Stocks and Stationery	7						✓	Substantial	Reported to the committee in February 2017
Integrated Housing Repairs (Consultancy)	10					✓			Draft report issued
Housing Repairs Stock Control (Consultancy)	15					✓			Draft report issued
Additional Support									
Annual Governance Statement	10						✓	Not Graded	Reported to the committee in May 2016
National Fraud Initiative	15				✓				Officers are reviewing and investigating "matches" where appropriate. This work will continue during 2017/18.

Assignment	Budget	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Corporate Investigation Work	35						✓	Not Graded	Four corporate investigations have been completed and reported during 2016/17. Final reports have been issued in each case.

***Implementation of Audit Recommendations Made in 2015/16***

<b>Audit</b>	<b>No. of Recs</b>	<b>Implemented on Time</b>	<b>Implemented Late</b>	<b>Not yet due</b>	<b>Overdue</b>	<b>Rejected Medium or High Risk Actions</b>
Stocks and Stores – Visitors Centre	1	1	0	0	0	0
Enterprise Risk Management	3	3	0	0	0	0
Benefits	7	7	0		0	0
Council Tax	0	0	0	0	0	0
Payroll and Election Payments	4	4	0	0	0	0
Income Management	1	1	0	0	0	0
<b>Totals</b>	<b>16</b>	<b>16 (100%)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

***Implementation of Audit Recommendations Made in 2016/17***

<b>Audit</b>	<b>No. of Recs</b>	<b>Implemented on Time</b>	<b>Implemented Late</b>	<b>Not yet due</b>	<b>Overdue</b>	<b>Rejected Medium or High Risk Actions</b>
Stocks and Stationary	3	3	0	0	0	0
ICT Service Desk	4	0	0	4	0	0
Corporate Health and Safety	15	3	0	12	0	0
Benn Hall Investigation	8	4	0	4	0	0
Procurement and Contract Management	8	0	0	8	0	0
ICT Systems Administration	7	5	0	2	0	0
<b>Totals</b>	<b>45</b>	<b>15 (33%)</b>	<b>0</b>	<b>30 (67%)</b>	<b>0</b>	<b>0</b>

**AGENDA MANAGEMENT SHEET**

<b><i>Name of Meeting</i></b>	Audit and Ethics Committee
<b><i>Date of Meeting</i></b>	4 April 2017
<b><i>Report Title</i></b>	2017/18 Internal Audit Plan
<b><i>Ward Relevance</i></b>	Not ward specific
<b><i>Prior Consultation</i></b>	Executive Director and Heads of Service
<b><i>Reporting Director</i></b>	Head of Corporate Resources and Chief Financial Officer
<b><i>Contact Officer</i></b>	Chris Green, Corporate Assurance and Improvement Manager, Tel: 01788 533451
<b><i>Report Subject to Call-in</i></b>	This report is not subject to Call-In because the committee has specific responsibility to review the work of the internal audit function and the framework of policies and standards within which it operates.
<b><i>Statutory/Policy Background</i></b>	Public Sector Internal Audit Standards
<b><i>Summary</i></b>	The Committee has specific responsibility to review the work of internal audit. The report outlines the internal audit plan for 2017/18.
<b><i>Risk Management Implications</i></b>	There are no risk direct management implications arising from this report.
<b><i>Financial Implications</i></b>	There are no direct financial implications arising from this report.
<b><i>Environmental Implications</i></b>	There are no environmental implications arising from this report.
<b><i>Legal Implications</i></b>	There are no legal implications arising from this report.
<b><i>Equality and Diversity</i></b>	No new or existing policy or procedure has been recommended.
<b><i>Recommendation</i></b>	The internal audit plan for 2017/18 be approved.
<b><i>Reasons for Recommendation</i></b>	To comply with the requirements of the terms of reference of the Audit and Ethics Committee.

**Audit and Ethics Committee – 4 April 2017**

**2017/18 Internal Audit Plan**

**Report of the Head of Corporate Resources and Chief Financial Officer**

**Recommendation**

The internal audit plan for 2017/18 be approved.

**1. Background**

- 1.1** The Public Sector Internal Audit Standards require the annual Internal Audit Plan to be reviewed and approved by the 'Audit Committee'. The Internal Audit Plan should be developed based upon an evaluation of the Council's key risks.

**2. Internal Audit Plan**

- 2.1** The Internal Audit Plan is designed to support the provision of an annual Internal Audit Opinion. The basis for forming this opinion is as follows:

- An assessment of the design and operation of the systems underpinning Governance, Assurance and Risk Frameworks and supporting processes.
- An assessment of the range of individual opinions arising from the risk based assignments, which will be reported throughout the year.

- 2.2** The Internal Audit Plan covers the two key component roles of Internal Audit:

- The provision of an independent and objective opinion to the Section 151 Officer/Head of Corporate Resources and the Audit and Ethics Committee on the degree to which risk management, control and governance support the achievement of Council objectives.
- The provision of an independent and objective consultancy service specifically to help line management improve the organisation's risk management, control and governance arrangements.

- 2.3** The Committee approved the process for developing the internal audit plan for 2017/18, at the previous meeting on 14 February 2017. The gross list of potential areas for internal audit review (the "audit universe") has been reviewed and updated, by identifying key risks from the following sources:

- Risk Management Framework, Strategic and Operational Risk Registers
- The draft Corporate Strategy
- Financial Statements
- The results of internal audit work carried out during 2016/17

- Cumulative knowledge and experience
- Ongoing stakeholder engagement during 2016/17 – including with Members

**2.4** The gross list of potential audits formed the basis of stakeholder discussions with the Senior Management Team during February 2017, from which the planned audit coverage for 2017/18 was refined and prioritised. At the stakeholder meetings senior management also provided details of additional areas of risk which would benefit from internal audit assurance work and/or consultative support. Following this consultation, a draft Internal Audit Plan was compiled and approved by the Senior Management Team on 16 March 2017. The draft Internal Audit Plan is set out at Appendix A and covers a broad range of areas including financial risks, IT risks, fraud risks, governance and ethics risks, corporate/strategic risks, and operational/service risks.

**2.5** The Head of Corporate Resources and Chief Financial Officer, and the Corporate Assurance and Improvement Manager, have reviewed the level of resources required to deliver the proposed risk based Internal Audit Plan. The level of resources required was calculated on a prudent basis, taking into account:

- Management time
- Training and development
- Sickness
- Annual leave and bank holidays
- Administrative duties

**2.6** An external provider, TIAA, is already contracted to deliver the IT audits under a framework agreement via Warwickshire County Council. Following a restructure of the Corporate Assurance and Improvement Team, a Corporate Assurance Officer will be recruited in 2017/18. In addition to insurance and risk management duties, this officer will be tasked with undertaking some internal audit assignments. This will make the internal audit service more resilient. In the last two years it has been necessary to commission external contractors to support the delivery of internal audit work. Assuming the successful recruitment and appointment of the Corporate Assurance Officer by 1 July 2017, there will be no need to commission external contractors in 2017/18. The internal audit plan will, with the exception of IT audits, be delivered entirely by the core in house team.

**2.7** The full gross list of potential audits is also set out at Appendix B; this enables members to see the basis upon which assignments have been included or excluded from the Internal Audit Plan. The Plan is flexible and members can request amendments to the audits included.

### **3. Arrangements for Approving In Year Changes to the Internal Audit Plan**

**3.1** The Public Sector Internal Audit Standards require the Audit and Ethics Committee to act as the 'Gate Keeper' to any significant changes to the Internal Audit Plan. It may be necessary during the year to change the Plan in response to emerging risks and to ensure that internal audit work adds the maximum value and remains aligned with the needs of the organisation.

**3.2** Before authorising changes to the Internal Audit Plan, the Committee would need to be satisfied that such a change would not impact, negatively, on the ability for



Internal Audit to provide an adequate level of assurance to the Council. For 2016/17 the Committee agreed that, due to the timing of meetings, and to avoid delays in completion of audit work, it was more appropriate to grant the Head of Corporate Resources and Chief Financial Officer delegated authority to approve such changes in consultation with the Chair. Such decisions were then subject to approval by the Committee at the subsequent meeting. It is proposed that this arrangement be continued for 2017/18.

- 3.3** In this context, significant changes to the Internal Audit Plan are regarded as any alteration in the allocation of resources of more than five days.

Name of Meeting: Audit and Ethic Committee  
Date of Meeting: 4 April 2017  
Subject Matter: 2017/18 Internal Audit Plan  
Originating Department: Corporate Assurance and Improvement

**LIST OF BACKGROUND PAPERS**

Document No.	Date	Description of Document	Officer's Reference	File Reference
Appendix A	4 April 2017	Draft Internal Audit Plan		
Appendix B	4 April 2017	Gross List of Potential Audits		

**APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18**

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>TIMING</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
<b><u>Financial Risks</u></b>					
Creditors	Corporate Resources	To provide assurance that appropriately designed controls are in place, and operated consistently, to mitigate the key risks to the Council in respect of its creditors system. To include a review providing assurance that the new Agresso Fund Manager module is realising the expected benefits.	Q4	Fundamental financial systems. Risk of fraud, error and/ or financial loss.	20
Green Waste	Corporate	To provide assurance that appropriately designed controls are in place, and operated consistently, to ensure that all income is accurately and completely accounted for.	Q2	New financial system generating significant income for the Council. Part of the strategy to achieve financial self-sufficiency.	12
				<b>Total – Financial Risks</b>	<b>32</b>
<b><u>Counter Fraud Risks</u></b>					
Fraud Awareness	Corporate Resources	Ongoing, targeted provision of training to raise awareness of fraud - what is fraud, types of fraud, how the risks can be reduced, and what to do if fraud is suspected.	Q1 to Q4	Supports ongoing delivery of the Anti-Fraud, Bribery and Corruption Strategy	8

**APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18**

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>TIMING</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
Council Tax and NDR Fraud	Corporate	Review of controls designed to prevent Council Tax and/ or NDR fraud. Proactive risk based testing of a sample of accounts to provide assurance that fraud is not taking place.	Q2	Supports ongoing delivery of the Anti-Fraud, Bribery and Corruption Strategy	12
Corporate Credit Cards	Corporate	Review of controls designed to prevent fraudulent use of corporate credit cards. Proactive risk based testing of a sample of transactions to provide assurance that fraud is not taking place.	Q1	Supports ongoing delivery of the Anti-Fraud, Bribery and Corruption Strategy	10
				<b>Total - Counter Fraud</b>	<b>30</b>
<b><u>ICT Risks</u></b>					
Disaster Recovery and Backup	Communities and Homes	Review of arrangements in place to ensure, in the event of a disaster, that systems are restored in a prioritised and timely manner, and that there are appropriate arrangements to prevent loss of data. The previous review conducted in 2014/15 provided only Limited Assurance. To be delivered by TIAA.	Q2	Loss or outage of various systems is highlighted on the operational risk register; could cause significant disruption to services. There are planned changes to the Council's arrangements.	10

**APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18**

<b><u>AUDIT ASSIGNMENT</u></b>	<b><u>SERVICE AREA/S</u></b>	<b><u>PROPOSED COVERAGE</u></b>	<b><u>TIMING</u></b>	<b><u>RATIONALE</u></b>	<b><u>ESTIMATE OF DAYS REQUIRED</u></b>
CCTV – Compliance with Code of Operations	Corporate	Assurance that those services which are responsible for oversight of CCTV monitoring are doing so in compliance with legislation and the 2014 Code of Operations. To be delivered by TIAA.	Q1	Risk of non-compliance with the Code of Operations. To support the drafting of a new internal code of practice.	14
				<b>Total - ICT</b>	<b>24</b>
<b><u>Corporate Risks</u></b>					
Health and Safety Follow up	Corporate	To provide assurance that the action plan arising from the 2016/17 audit has been implemented. Assurance that contractors who undertake property works do so in line with their method statements.	Q3	High risk rating highlighted by the previous audit, which resulted in Limited Assurance.	15
Change Management - Digitalisation	Corporate	Consultative support as required throughout the year to ensure that the digitalisation programme delivers the intended outcomes without compromising the Council's overall control environment.	Q1 - Q4	A key element of the Council's strategy to achieve financial self-sufficiency. Increased risk of the control environment being compromised.	20

**APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18**

<b><u>AUDIT ASSIGNMENT</u></b>	<b><u>SERVICE AREA/S</u></b>	<b><u>PROPOSED COVERAGE</u></b>	<b><u>TIMING</u></b>	<b><u>RATIONALE</u></b>	<b><u>ESTIMATE OF DAYS REQUIRED</u></b>
Agency Staff	Corporate	Assurance that use of Agency Staff is for appropriate reasons, authorised in advance, and not used to circumvent restrictions on filling vacant positions. Assurance that use is not for extended periods of time and as an alternative to a more strategic approach to recruitment and workforce development.	Q4	Risk of poor Value for Money; excessive need for agency staff may indicate an ineffective recruitment, workforce development and retention strategy.	15
Partnership Governance	Corporate	Assurance that the Council applies an appropriate governance framework to its partnerships such that corporate objectives and value for money are achieved. To include a review of the governance and operation of the Crematorium Joint Venture with Daventry District Council.	Q2	Risk of loss of sovereignty. Significant risk of reputational and financial damage should partnerships fail.	15
Values and Behaviours	Corporate	Assurance that the Council's values and expected standards of behaviour have been defined, are measured objectively and reported upon. To assess actual attitudes and behaviours (culture) through a series of interviews and/ or surveys. Assessment based upon an attributes maturity model.	Q4	Risk of reputational damage and low employee morale.	15

APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>TIMING</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
Risk Management	Corporate	Assessment of the effectiveness of the Council's arrangements to manage its risks, and the level of risk maturity of the Council. <i>To avoid an actual or perceived conflict of interest this review will not be undertaken by the in house team.</i>	Q3	Failure to embed an effective risk management framework would increase the likelihood that the Council will fail to achieve its organisational objectives.	10
				<b>Total - Corporate Risks</b>	<b>90</b>
<b><u>Operational Risks</u></b>					
Tenant Recharges	Corporate Resources	Assurance that recharges are accurate and complete, and correctly reflect the Council's expenditure incurred when carrying out repairs. Review of arrangements in place to maximise the collection of outstanding income.	Q4	New system of recharges introduced.	12
Housing Repairs	Corporate Resources	Assurance that the Oneserve system is delivering its expected outcomes. Review of the design and application of controls. To include a review of performance management arrangements.	Q3	New system implemented in 2016	20

**APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18**

<b><u>AUDIT ASSIGNMENT</u></b>	<b><u>SERVICE AREA/S</u></b>	<b><u>PROPOSED COVERAGE</u></b>	<b><u>TIMING</u></b>	<b><u>RATIONALE</u></b>	<b><u>ESTIMATE OF DAYS REQUIRED</u></b>
Benn Hall and the Tool Shed Cafe	Growth and Investment	Assurance requested that income and expenditure is appropriately accounted for, with a focus on sales, stock control and cash receipting. Assurance that the 2016/17 investigation action plan has been implemented.	Q3	High risk, an investigation carried out during 2016/17 highlighted significant procedural weaknesses	20
Housing Repairs Stock Control	Corporate Resources	Assurance that appropriately designed and embedded stock control and stock taking procedures are in place.	Q3	New system. Robust stock control procedures are fundamental to ensure that the service runs efficiently, material costs are appropriately controlled, and that opportunities for theft or fraud are minimised.	15
RAGM Income	Growth and Investment	Assurance that: <ul style="list-style-type: none"> <li>• There are appropriately designed controls in place for selling World Rugby stocks.</li> <li>• There are robust procedures for recording and monitoring Hall of Fame ticket sales and income.</li> <li>• The café profit sharing arrangement is operating as expected.</li> </ul>	Q1	New systems in place. Hall of Fame income is a key element of the Council's financial strategy.	12



**APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18**

<b><u>AUDIT ASSIGNMENT</u></b>	<b><u>SERVICE AREA/S</u></b>	<b><u>PROPOSED COVERAGE</u></b>	<b><u>TIMING</u></b>	<b><u>RATIONALE</u></b>	<b><u>ESTIMATE OF DAYS REQUIRED</u></b>
Play Service and On Track	Growth and Investment	Assurance that there are appropriately designed processes in place to accurately and completely record income. Assurance that all service related costs have been appropriately considered and understood when setting prices. Assurance that there are suitable arrangements in place to monitor income levels and take appropriate remedial action if targets are not being met. Assurance that the Council has appropriate processes in place to efficiently and effectively fulfil its responsibilities as a caretaker of the children using the service.	Q1	There are significant income targets for the service, with the potential to significantly reduce the net costs to the community. Substantial reputational and legal risks should the Council fail in its caretaking responsibilities.	20
Residential– Landlord Health and Safety Responsibilities	Corporate Resources	Assurance, in relation to residential property, that the Council is operating in compliance with its health and safety responsibilities.	Q2	High level of inherent risk. The review of corporate health and safety in 2016/17 highlighted compliance issues in relation to corporate properties.	15

**APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18**

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>TIMING</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
Car Parking Consultancy Review	Environment and Public Realm	A consultative review of: <ul style="list-style-type: none"> <li>• Car park income and occupation compared with running costs</li> <li>• Car parking charges in the borough compared with other local authorities</li> <li>• Corporate land usage</li> </ul>	Q3	Risk highlighted by the Head of Environment and Public Realm that utilisation of corporate assets may in some instances be poor.	10
Fleet Management	Environment and Public Realm	Review of compliance with operator licence regulations, arrangements to secure value for money, planning of the fleet to ensure that operational needs are met, asset purchases and disposals, fuel and tyre procurement, and arrangements to secure service resilience in the event that key officers leave the Council.	Q3	There are upcoming changes in the management structure of the service and amendments to fuel and tyre procurement procedures.	20
				<b>Total – Operational Risks</b>	<b>144</b>

APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>TIMING</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
<b><u>Additional Areas of Support</u></b>					
<b>Annual Governance Statement</b>		Assurance that the Council operates a robust framework of corporate governance, in accordance with the new "Delivering Good Governance in Local Government" framework.	Q1	Statutory requirement under the Accounts and Audit Regulations 2015.	<b>15</b>
<b>National Fraud Initiative</b>		Ongoing co-ordination of the review of data matching, and assurance that investigations are conducted where required.	Q1-Q4	The Council participates in the National Fraud Initiative, in line with its Counter Fraud Strategy.	<b>8</b>
<b>Corporate Investigation Work</b>		Provision of independent investigatory support, in relation to allegations or suspicions of fraud, bribery and/ or corruption.	Q1-Q4	In line with the public interest and the Council's zero tolerance approach to fraud, bribery and corruption, as set out in the Strategy.	<b>35</b>

APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18

<u>AUDIT ASSIGNMENT</u>	<u>SERVICE AREA/S</u>	<u>PROPOSED COVERAGE</u>	<u>TIMING</u>	<u>RATIONALE</u>	<u>ESTIMATE OF DAYS REQUIRED</u>
<b>Contingency Allowance</b>				An allowance to enable unforeseen events to be absorbed without the need to revise the approved audit plan. This represents the application of sound project management. For example, an audit might take longer than estimated due to an extension of the scope or additional testing being required. Also includes a small amount of time required to finalise 2016/17 audits.	<b>35</b>
<b>INTERNAL AUDIT PLAN - TOTAL DAYS</b>					<b>422</b>

## APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18

### GROSS LIST OF POTENTIAL AUDITS

#### Corporate Risks

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 17/18 Audit Plan?</u>	<u>Rationale for Excluding</u>
Business Continuity/ Emergency Planning	Strategic and Operational Risk Registers	Consistently referred to as being high risk.	Assurance that plans are fit for purpose.	MEDIUM	No	Full audit in 2016/17
Income generation/ Delivery of Savings/ Financial self sufficiency	Financial Reports	Challenging climate, financial sustainability of the Council depends on successful income generation and delivery of savings.	Assurance that schemes are on track to deliver the expected levels of income and savings.	HIGH	Yes	Yes, the proposed plan includes green waste, Hall of Fame, Play Service and On Track
Change Management	Operational Risk Registers	Critical to achievement of financial self-sufficiency, increased risk of the control environment being compromised.	Consultative support to ensure that reviews are delivering the intended outcomes/ benefits without compromising the Council's overall control environment.	HIGH	Yes	Digitalisation consultancy support included in the draft plan.
Corporate Health and Safety	Health and Safety Operational Risk Register	Substantial damage to the Council in the event of a serious incident e.g. reputation, finance, fatality, loss of building.	Assurance that appropriate policies and procedures are in place and operated effectively, and that appropriate staff training, monitoring and remedial action is taken where necessary.	HIGH	Yes	Follow up review included in the draft plan.

## APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 17/18 Audit Plan?</u>	<u>Rationale for Excluding</u>
Fraud Risk Review	Internal Audit	In order to implement the new Counter Fraud Strategy, the Council will need to assess its fraud risks, in order to develop and implement an appropriate fraud response plan.	Assurance that appropriate risk assessments have taken place, and that appropriate mitigating controls are being developed and implemented.	MEDIUM	No	Full review completed in 2016/17. Will be revisited in 2018/19
Corporate Properties (Communal Areas and Open Spaces)	Internal Audit	Significant reputational and financial damage if the Council has not taken reasonable steps to ensure health and safety.	Assurance that the Council is operating in compliance with its statutory health and safety responsibilities in relation to communal areas. Could be delivered alongside the corporate health and safety audit.	HIGH	Yes  To be delivered alongside review of corporate health and safety	Follow up review of 2016/17 audit
Agency Staff	Internal Audit	Risk of poor Value for Money; excessive need for agency staff may indicate an ineffective workforce retention strategy.	Assurance that use of Agency Staff is for appropriate reasons, authorised in advance, and not used to circumvent procedures such as restrictions on filling vacant positions. Assurance that use is not for extended periods of time.	HIGH	Yes	Included in draft plan

## APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 17/18 Audit Plan?</u>	<u>Rationale for Excluding</u>
Business Improvement District	Stakeholder consultation meetings	SLA being reviewed in 2016/17. Some concerns have been expressed around financial transparency.	Review of income and expenditure to provide assurance that monies are utilised for the purposes intended and that value for money is achieved.	MEDIUM	No	Reviewed in 2016/17
Partnership Governance	Strategic Risk Register	Risk of loss of sovereignty.	Appropriate arrangements to manage partnerships such that corporate objectives and VFM are achieved.	MEDIUM	Yes	Included in draft plan
Workforce Development and Retention	Common theme throughout the Council's strategic and operational risk registers.	Critical to the success of the organisation; higher risk due to the economic climate and recovery of the private sector. Workforce planning currently in progress.	Review of design and effectiveness of the Council's strategy to develop and retain its workforce in key areas.	MEDIUM	No – deferred until 2018/19	Will reconsider pending outcome of values and behaviours, and agency staffing reviews
Consultancy Expenditure	Internal Audit	Poor Value for Money, failure to achieve intended outcomes.	Assurance that expenditure on consultants is appropriately controlled, that there are clear terms of reference, that intended outcomes are delivered and Value for Money is secured.	MEDIUM	No	Reviewed in 2016/17

## APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 17/18 Audit Plan?</u>	<u>Rationale for Excluding</u>
Financial Planning and Governance	Financial Reports	Challenging financial climate for local government.	Financial resilience, financial planning follows best practice. Openness and transparency. Priority assessed as Medium because external audit have concluded again that the Council has effective financial management arrangements in place.	MEDIUM	No	Reliance placed upon assurances provided by external audit.
Contract Management	Internal Audit	Failure to deliver outcomes and achieve value for money	Contract manager training, compliance with Contract Standing Orders, financial, project and risk management.	MEDIUM	No	Reviewed in 2016/17
Project Management	Internal Audit	Projects fail to deliver outcomes in a way which demonstrates value for money. Failure to achieve corporate objectives.	Project risk management, officer skills and expertise, design and operation of project governance and monitoring arrangements, consistency of application of good project management.	MEDIUM	No - Deferred	Will be scheduled for review in 2018/19
Capital Programme	Internal Audit	Risk of non-delivery of the programme and/or poor use of monies.	Assurance that appropriate arrangements are in place to ensure delivery of the programme on time, and in a way which secures Value for Money.	MEDIUM	No - Deferred	Will be scheduled for review in 2018/19
Fraud Awareness	Internal Audit	The Council is developing and implementing a new Counter Fraud Strategy	Training to raise awareness of fraud – what is fraud, types of fraud, how the risks can be reduced, what to do if fraud is suspected.	MEDIUM	Yes	Not Applicable



## APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 17/18 Audit Plan?</u>	<u>Rationale for Excluding</u>
Member Development	Internal Audit	Risk of failure to hold officers to account, poor decision making, failure to achieve corporate priorities.	Review of arrangements designed to ensure that Members are equipped to effectively carry out their role, make effective decisions (where appropriate), and effectively scrutinise senior officers.	MEDIUM	No - Deferred	Will be scheduled for review in 2018/19
Freedom of Information	Internal Audit	Significant risk of reputational damage. Failure to minimise costs of compliance.	To provide assurance that the Council meets its statutory obligations in relation to the Freedom of Information Act, and that the arrangements are efficient and effective.	MEDIUM	No - Deferred	Will be scheduled for review in 2018/19
Records Management	Internal Audit	Risk of inconsistent approach to records retention and disposal, including potentially unnecessary creation of records.	Assurance that the Council operates in compliance with the Code of Practice on Records Management, including a review of records retention and disposal procedures.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.
Equal Pay	Internal Audit	Risk of employee Equal Pay claims leading to significant financial loss and reputational damage.	Comparison of the pay of men and women carrying out equal work, identification and review of equal pay gaps, resolution of equal pay gaps, ongoing monitoring arrangements.	LOW	No	HR department has assurance arrangements in place.
Corporate credit/ purchase cards	Internal Audit	Potential fraudulent use of the card/s	Detailed review of transactions to provide assurance that purchases were appropriate and supported by valid receipts.	MEDIUM	Yes	Included in programme of proactive counter fraud work

## APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18

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Community Engagement and Consultation	Internal Audit	Risk of legal challenges if insufficient engagement and consultation is carried out.	Assurance that appropriate and effective community engagement and consultation arrangements are in place.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.
Risk Management	Internal Audit	Failure to achieve organisational objectives.	Assessment of the effectiveness of the Council's arrangements to manage its risks, and the level of risk maturity of the Council.	MEDIUM	Yes	Not applicable
Data Protection	Internal Audit	Risk of significant financial loss and reputational damage	Assurance that the Council operates in compliance with the Data Protection principles when storing and sharing data.	MEDIUM	No - Deferred	Will be scheduled for review in 2018/19
Local Government Transparency Code	Internal Audit	Legal and reputational damage risk	Assurance that the Council is, as a minimum, operating in compliance with the mandatory elements of the Code	MEDIUM	No - Deferred	Will be scheduled for review in 2018/19
Elections	Stakeholder consultation	Risk of legal and reputational damage	Assurance that elections are managed efficiently and effectively to ensure the smooth running of elections.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.
Procurement	Internal Audit	Risk of fraud/ corruption.	Design and operation of controls designed to ensure that the Council complies with statutory and policy requirements, and to ensure that value for money is demonstrated throughout procurement activities.	MEDIUM	No	Full audit completed in 2016/17

**APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18**

<b><u>Audit Title</u></b>	<b><u>Source</u></b>	<b><u>Rationale</u></b>	<b><u>Potential Coverage</u></b>	<b><u>Risk Rating and Priority</u></b>	<b><u>Included in 17/18 Audit Plan?</u></b>	<b><u>Rationale for Excluding</u></b>
Complaints, Compliments and Suggestions	Internal Audit	Reputational damage if complaints are not dealt with appropriately	Assurance that complaints are handled in an appropriate and timely manner, and that learning lessons are consistently applied.	MEDIUM	No - deferred	Will be scheduled for review in 2018/19
Values and Behaviours	Internal Audit	Legal and reputational damage, low employee morale	Assurance that expected standards of behaviour and values have been defined, are measured objectively and reported upon. To assess and report on actual attitudes and behaviours (culture) through a series of interviews and surveys. Could be attributes based upon a maturity model.	MEDIUM	YES	Not applicable

## APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18

### Service Risks – Communities and Homes

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 17/18 Audit Plan</u>	<u>Rationale for Excluding</u>
Equalities Act 2010 Compliance	Operational Risk Register, Stakeholder Consultation	Accreditation review to take place in Q4 2016/17. The Council is currently accredited as 'excellent'.	Equality Framework for Local Government, quality of Equality Impact Assessments, Employee Awareness, recruitment practices, review of evidenced outcomes.	MEDIUM	No	Reviewed in 2016/17
Stocks and Stationery	Stakeholder Consultation – Requested by Head of Communities and Homes	Assurance sought by the Head of Communities and Homes	The budget for this area has been halved. Assurance sought that procurement processes are being correctly followed, that best value is obtained when purchasing supplies, and that the issue of stationery is appropriately controlled.	LOW	No	Reviewed in 2016/17
Customer Service Centre Demand Management	Customer and Business Support Services Operational Risk Register	Risk of inconsistent approach to dealing with customers either on demand or through appointments. Reputational damage.	Review organisational arrangements in place to ensure that customers are attended to in a fair consistent and timely manner.	MEDIUM	No - Deferred	Will be scheduled for completion in 2018/19
ICT Disaster Recovery/ Backup Procedures	ICT Services Operational Risk Register	Loss or outage of various systems is highlighted on the risk register; could cause significant disruption to services.	Appropriate arrangements in place to ensure, in the event of a disaster, that systems are restored in a prioritised and timely manner, and that there are appropriate arrangements to prevent loss of data.	MEDIUM	Yes	Not Applicable

## APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 17/18 Audit Plan</u>	<u>Rationale for Excluding</u>
IT Systems Admin	Stakeholder consultation	There might not be effective and controlled administration of the Council's IT network.	Administration of software and systems, including user access rights. Specific focus on administration of user account creation and deletion.	MEDIUM	No	Full review in 2016/17, substantial assurance provided
IT Helpdesk	Internal Audit	Fundamental back office service.	Assurance that the helpdesk service is managed, within its agreed level of resources, in a way which meets the needs of the Council.	LOW	No	Reviewed in 2016/17
Payment Card Industry Data Security Standards Compliance	Stakeholder Consultation	Failure to comply with standards leading to reputational damage and loss of ability to process card payments.	General review of compliance with the standards across the Council.	MEDIUM	No	Reviewed in 2016/17
IT Security	Internal Audit	Risk of data loss or theft, substantial reputational damage	Assurance that appropriately embedded IT Security measures are in place.	MEDIUM	No - Deferred	Will be scheduled for completion in 2018/19
Cash and Banking	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Assurance that income from all sources is received and accounted for in full in a timely manner. System access controls, accuracy and completeness of accounting records.	LOW	No	Full audit completed in 2015/16.

## APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 17/18 Audit Plan</u>	<u>Rationale for Excluding</u>
IT Strategy, Governance and Policies	Internal Audit	Effective ICT Governance is vital in ensuring that the ICT team are fully engaged with all services areas, can meet their needs and, in return, service areas also work in line with the Council's ICT requirements.	Assurance that appropriate and embedded ICT governance arrangements are in place, including strategy and policies.	LOW	No	Full audit completed in 2015/16  Will be reconsidered for inclusion in 2018/19
Community Engagement and Consultation	Internal Audit	Risk of legal challenges if insufficient engagement and consultation is carried out.	Assurance that appropriate and effective community engagement and consultation arrangements are in place.	LOW	No	Will be reconsidered in 1 year
Housing Allocations	Internal Audit			MEDIUM	No - Deferred	Will be scheduled for completion in 2018/19
Sheltered Housing	Internal Audit	The service might not meet the needs of stakeholders and charges might be insufficient to cover expenditure	Assurance that the service meets the needs of stakeholders and that service expenditure is sufficiently covered by income.	MEDIUM	No – Deferred	Will be scheduled for 2018/19 (upcoming system changes)
Housing Options	Internal Audit	Risk of significant reputational damage, customer hardship	Assurance that the Council is complying with its statutory responsibilities in relation to the homeless.	MEDIUM	No - Deferred	Will be scheduled for completion in 2018/19

**APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18**

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 17/18 Audit Plan</u>	<u>Rationale for Excluding</u>
Housing Rents	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Accuracy and completeness of billing, system access controls, maximisation of collection, accuracy and completeness of accounting records.	LOW	No	Full audit completed in 2015/16.

## APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18

### Service Risks – Environmental and Public Realm

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
Streetscene	Environmental Services Operational Risk Register	Operational risk register highlights the risk of deterioration of assets.	Assurance that the inspection regime is being operated as expected, and that repairs and maintenance is carried out in an effective and timely manner.	MEDIUM	No - Deferred	Will be considered for inclusion in 2018/19
Crematorium	Stakeholder Consultation – Requested by Head of Environment and Public Realm	Assurance requested by the Head of Environment and Public Realm	Review of the governance and operation of the Joint Venture with Daventry District Council. Assurance that recharges are appropriate and that any surplus is fairly distributed between the two authorities.	MEDIUM	Yes – Included within review of partnership governance	Not Applicable
Licensing	Stakeholder Consultation – Requested by Head of Environment and Public Realm	Assurance requested by the Head of Environment and Public Realm.	Assurance requested that the service is cost neutral, and that back office costs are appropriately incorporated when considering whether or not the provision of such licenses is cost neutral.	MEDIUM	No	Will be considered for inclusion in 2018/19. Service will be offered support from finance to review cost base.
Car Parking	Internal Audit	Traditionally a risky area from an audit perspective.	Assurance that income is accounted for correctly and in full.	MEDIUM	Yes	Consultative review of income, occupation and running costs included for 2017/18



## APPENDIX A DRAFT INTERNAL AUDIT PLAN 2017/18

<u>Audit Title</u>	<u>Source</u>	<u>Rationale</u>	<u>Potential Coverage</u>	<u>Risk Rating and Priority</u>	<u>Included in 16/17 Audit Plan</u>	<u>Rationale for Excluding</u>
Fleet Management	Internal Audit	Risk of loss of operator's licence, risk of reputational damage	Compliance with operator licence regulations, value for money, planning of the fleet to ensure that operational needs are met, compliance with safety standards, purchasing and disposals.	MEDIUM	Yes	Not applicable
Use of s106 Monies	Stakeholder Consultation	As s106 commuted sum monies come to an end, the Council/ Parishes may be exposed to liabilities in relation to ongoing upkeep of open spaces.	Assurance that the Council is proactively mapping the timescale of reductions in s106 monies, and actively planning, including consideration of the costs, how the ongoing upkeep of open spaces will be delivered.	MEDIUM	No	Management action already in progress, audit not viewed as required at present.
Pest Control	Internal Audit	Financial loss, reputational damage	Accuracy and completeness of income and expenditure, compliance with statutory obligations, value for money.	MEDIUM	No	Fees and charges reviewed in 2016/17
Transport – Fuel Usage	Transport Operational Risk Register	Risk of fuel loss due to theft.	Assurance that appropriate controls are operated to mitigate the risk of fuel theft, either by officers or by members of the public.	MEDIUM	Yes	Will be included in review of fleet management
Trade Waste	Internal Audit	Risk of financial loss, reputational damage due to failure to deliver a quality service.	Accuracy and completeness of billing, value for money of the service, financial sustainability of the service, collection and recovery of outstanding income.	LOW	No	Considered low risk at present

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### Service Risks – Growth and Investment

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Benn Hall	Stakeholder Consultation	Investigation in 2016/17 highlighted procedural weaknesses	Assurance requested that income and expenditure is appropriately accounted for, with a particular focus on ticket sales, stock control and cash receipting.	HIGH	Yes	Not Applicable
Tool Shed Café	Internal Audit	Risk of financial loss	Assurance that income and expenditure is correctly accounted for.	MEDIUM	Yes	Included within Benn Hall review
Land Charges	Internal Audit	Risk of financial loss and/ or reputational damage.	Maintenance and update of the land charges register, efficient and timely completion of search requests, accuracy and completeness of land charge search income, system access controls.	LOW	No	Considered low risk at present
Planning Development and Enforcement	Internal Audit	Risk of fraud/ corruption/ bribery	Assurance that planning admin, management and enforcement processes are consistently applied, efficiently and effectively, in line with Council policies/ statutory requirements.	MEDIUM	No - deferred	Full review completed in 2014/15, review will be scheduled for 2018/19
Building Control	Internal Audit	Risk of financial loss	Assurance that charging is timely and accurate, and that income is collected in full and correctly accounted for. Service managed by Warwick District	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.

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RAGM	Stakeholder consultation	New systems in place. Hall of Fame income is a key element of the Council's financial strategy.	Assurance that: <ul style="list-style-type: none"> <li>• There are appropriately designed controls in place for selling World Rugby stocks.</li> <li>• There are robust procedures for recording and monitoring Hall of Fame ticket sales and income.</li> <li>• The café profit sharing arrangement is operating as expected</li> </ul>	MEDIUM	Yes	Not applicable
Play Service/ On Track	Stakeholder consultation	There are significant income targets for the service, with the potential to significantly reduce the net costs to the community.	Assurance that there are appropriately designed processes in place to accurately and completely record income. Assurance that all service related costs have been appropriately considered and understood when setting prices. Assurance that there are suitable arrangements in place to monitor income levels and take appropriate remedial action if targets are not being met.	MEDIUM	Yes	Not applicable

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**Service Risks – Corporate Resources**

<b><u>Audit Title</u></b>	<b><u>Source</u></b>	<b><u>Rationale</u></b>	<b><u>Potential Coverage</u></b>	<b><u>Risk Rating and Priority</u></b>	<b><u>Including in 16/17 Audit Plan</u></b>	<b><u>Rationale for Excluding</u></b>
Creditors	Financial Services Operational Risk Register, Fundamental Financial System	Risk register highlights risk of incorrect payments, late payments, and fraud.	Accuracy and timeliness of payments, system accuracy, recovery of duplicate payments, accuracy of accounting records.	MEDIUM	Yes	Not Applicable
Absence Management	Human Resources Operational Risk Register	Risk register highlights the risk of adverse impacts on services and teams caused by sickness absence. Leadership Team review currently in progress.	Assurance that policy and procedures are appropriately designed, and consistently applied to ensure that absence is effectively managed.	MEDIUM	No - Deferred	Will be scheduled for 2018/19
Income Collection and Recovery (Sundry Debtors)	Internal Audit	Fundamental financial system. Risk of fraud, error, financial loss.	Assurance that income is billed in full and in a timely manner, and that procedures are sufficiently robust to ensure that collection rates are maximised. System access review. Accuracy and completeness of accounting records.	MEDIUM	No	Reviewed in 2016/17

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Council Tax and NDR Fraud	Internal Audit	Risk of financial loss and reputational damage, limited internal resource capacity to undertake proactive work in this area.	Review of the design of controls in place to mitigate the risk of Council Tax and/ or NDR fraud. Proactive sample testing of a sample of accounts to confirm the operation of controls and to provide assurance that fraud is not taking place.	MEDIUM	Yes	Not applicable
Fixed Assets	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Valuations, additions and disposals, accuracy and completeness of accounting records.	MEDIUM	No	Reliance placed on assurance provided by external audit
NDR	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Accuracy and completeness of billing, processing and authorisation of reliefs, system access controls, maximisation of collection, accuracy and completeness of accounting records.	MEDIUM	No	Reviewed in 2016/17
Main Accounting System	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Assurance that the Main Accounting System is secure, and adequately supports the production of accurate financial statements.	MEDIUM	No	Reliance placed on assurance provided by external audit
Treasury Management	Financial Services Operational Risk Register, Fundamental Financial System	Risk register highlights risk of financial losses on investments, higher than necessary debt, and insufficient cash.	Authorisation of transactions, compliance with Treasury Management Practices, assurance that there is an appropriate strategy in place, system access controls, accuracy and completeness of accounting records.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.

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Budget Setting and Monitoring	Financial Services Operational Risk Register, Fundamental Financial System	Risk register highlights risk of significant budget setting errors.	Assurance that the budget setting process is robustly designed to mitigate the risk of significant error. Assurance that budget monitoring is sufficiently robust to identify and address any in year financial pressures.	MEDIUM	No	Will be scheduled for 2018/19 following system upgrade
Recruitment and Selection	Internal Audit	Risk of fraud/ corruption. Recruitment may not meet the needs of the Council e.g. if the officer does not have the skills or potential to carry out the duties of the post.	Review of design and compliance with recruitment and selection procedures.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.
Insurance	Internal Audit	The Council's insurance coverage might be inappropriate for its needs and might not represent value for money; claims processing arrangements might not be sufficiently robust.	Review of the levels of insurance cover, arrangements to ensure value for money, and claims processing procedures.  Review would need to be undertaken by an officer outside of the Corporate Assurance service, or an external assurance provider.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.

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Benefits	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Accuracy of payments to claimants, system access control, recovery of overpayments, accuracy and completeness of accounting records.	LOW	No	Full audit completed in 2015/16, will be reconsidered in 1 year
Council Tax	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Accuracy and completeness of billing, system access controls, maximisation of collection, accuracy and completeness of accounting records.	LOW	No	Full audit completed in 2015/16, will be reconsidered in 1 year
Payroll	Internal Audit	Fundamental financial system; risk of fraud, error, financial loss.	Payroll processing including deductions, administration of starters and leavers, system access controls, accuracy and completeness of accounting records.	LOW	No	Full audit completed in 2015/16, will be reconsidered in 1 year
Performance management and data quality	Corporate Assurance and Improvement Operational Risk Register	Risk of ineffective management, failure to achieve outcomes, inappropriate targeting of resources.	Governance, accuracy of information.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.
Legal Services	Legal Services Operational Risk Register	Risk register highlights risks of failure to deliver prompt service and to meet deadlines.	Timeliness of service provision, prioritisation of workload, efficiency and effectiveness.	LOW	No	Regarded as low risk at present; will be reconsidered in 1 year.

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Right to Buy	Stakeholder Consultation	Risk of fraud/ money laundering/ financial loss/ reputational damage	Assurance sought that property transactions are at the correct prices based upon market rates, the Council has appropriate procedures to prevent fraudulent abuse of the Right to Buy scheme (for example through identity checks), that tenancy length conditions have been met, and that management are operating appropriate monitoring controls.	LOW	No	External review in November 2015 concluded that the scheme was well administered by the Council. Regarded as low risk at present.
Tenant Recharges	Stakeholder consultation	New system implemented	Assurance that recharges are accurate and complete, and correctly reflect the Council's expenditure incurred when carrying out repairs. Assurance that there are appropriate arrangements in place to maximise the collection of outstanding income.	HIGH	Yes	Included in draft plan.
Housing Repairs	Stakeholder consultation	New system implemented in 2016	Assurance that the Oneserve system is delivering its expected outcomes. Assurance that appropriately designed controls are in place, consistently applied. To include a review of performance management arrangements.	HIGH	Yes	Included in draft plan



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Housing Repairs Stock Control	Stakeholder consultation	New system. Robust stock control procedures are fundamental to ensure that the service runs efficiently, that material costs are appropriately controlled, and that opportunities for theft or fraud are minimised.	Assurance that appropriately designed and embedded stock control and stock taking procedures are in place.	HIGH	Yes	Included in draft plan