



Central Midlands Audit Partnership – Quality Assurance & Improvement Programme

Partnership Board: 4th December 2013



Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

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Providing Excellent Audit Services in the Public Sector

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Introduction

IIA Guidance

A QAIP should draw conclusions regarding the quality of the internal audit activity and lead to recommendations for appropriate improvements. All Chief Audit Executives (CAEs) are required to develop a QAIP that includes both internal and external assessments. Internal assessments should include both on-going monitoring and periodic self-assessment. External assessments may be either a full external assessment or a self-assessment with independent validation. Under the QAIP, quality should be assessed at both an individual audit engagement level as well as at a broader internal audit activity level. A well-developed QAIP will ensure that quality is built in to, rather than on to, the way the internal audit activity operates. In other words, an internal audit activity should not need to assess whether each individual engagement conforms to the Standards. Rather, engagements should be undertaken in accordance with an established methodology that promotes quality and, by default, conformance with the Standards.

To achieve comprehensive coverage of all aspects of the internal audit activity, a QAIP must effectively be applied at three fundamental levels (or perspectives):

Internal Audit Engagement Level

This is self-assessment at the audit, engagement, or operational level, where the engagement supervisor (possibly a manager or the CAE) is responsible for providing assurance that:

- Appropriate processes have been used to translate audit plans into specific, appropriately resourced audit engagements.
- Planning, fieldwork conduct, and reporting/communicating results conform to the Definition of Internal Auditing, the Code of Ethics, and the Standards.
- Appropriate mechanisms are established and used to follow-up management actions in response to audit recommendations.
- Post-engagement client surveys, lessons learned, self-assessments, and other mechanisms to support continuous improvement are completed.

Internal Audit Activity Level

This is self-assessment at the internal audit activity or organisational level) where the CAE is responsible for providing assurance that:

- Written policies and procedures, covering both technical and administrative matters, are formally documented to guide audit staff in consistent conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.
- Audit work conforms to written policies and procedures.
- Audit work achieves the general purposes and responsibilities described in the internal audit charter.

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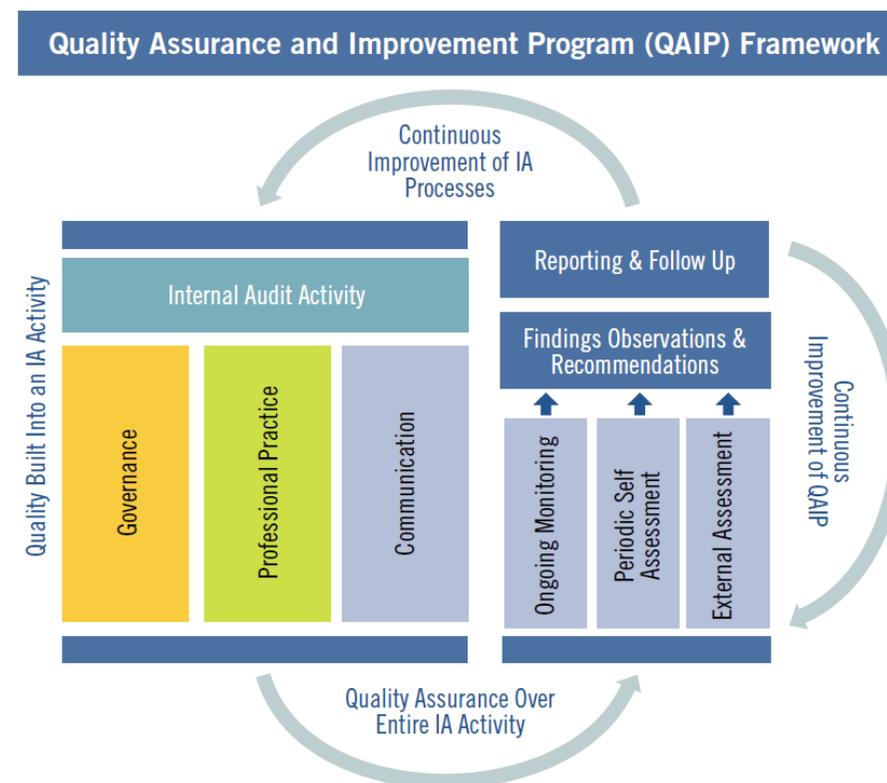
- Audit work conforms to the Definition of Internal Auditing, the Code of Ethics, and the Standards.
- Internal audit work meets stakeholder expectations.
- The internal audit activity adds value and improves the organisation's operations.
- Resources for the internal audit activity are efficiently and effectively utilised.

External Perspective

This is independent external assessment of the entire internal audit activity including individual engagements) where:

- The CAE must ensure that the internal audit activity undergoes an external assessment (either an independent external assessment or a self-assessment with independent validation) at least once every five years by an independent assessor or assessment team from outside the organisation that is qualified in the practice of internal auditing as well as the quality assessment process.
- External assessors express an opinion on the entire spectrum of assurance and consulting work performed (or that should have been performed) by the internal audit activity, including its conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. Assessors also conclude on the efficiency and effectiveness of the internal audit activity in

carrying out its charter and meeting the expectations of stakeholders.



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On-going Monitoring

Planning to Engagement

Risk Based Planning

Each year the Audit Manager produces a risk based Audit Plan for each organisation we serve. The Annual Audit Plan is developed with due regard to the information produced by each organisation's risk and performance management systems in order that audit resources may be targeted at areas of greatest risk to the organisation. Plans are primarily based on Internal Audit's own risk assessment of each organisation's whole control environment. They are in part based on subjective judgment, but modelling techniques are also used to ensure that the approach is systematic. Stakeholders are consulted on the contents of the Audit Plan.

As part of this risk assessment and planning process we meet with the organisation's key stakeholders to better understand their requirements from internal audit and provide them with an opportunity to identify any concerns they may have about the organisation's control environment or the risks it faces. We seek to derive information from the organisation's key governance documents (such as risk registers, internal rules, codes of conduct, schemes of delegation etc.) Armed with this information, we seek to identify the organisation's audit universe (i.e. everything that could feasibly be audited), then perform a risk assessment to prioritise resources to the areas of greatest risk. We also need to identify previous internal audit coverage to avoid repeating work recently undertaken. The resultant document would provide an indicative

Audit Plan, which would be used to consult with the organisation's key stakeholders on the final agreed Audit Plan for the year.

Scoping & Risk Assessing Engagements

Our Auditors are allocated their assignments for the year from the agreed Audit Plans. For each engagement, the responsible Auditor is required to complete our bespoke risk assessment for the area under review in our Audit Management System. The risk assessment requires the Auditor to consider and score 4 areas that affect the impact of the risks occurring and 4 areas that affect the likelihood of risks occurring. The Auditor is required to record a narrative to indicate the reasons behind their scores. Once this risk assessment has been produced, the Auditor prompts the Audit Management System to email an Assistant Audit Manager to inform them that a risk assessment has been produced for the assignment which is ready for their review and approval. Once reviewed, Auditors can then consider developing the scope of the assignment. When deriving the scope the following issues are considered:

- The results from the Auditors risk assessment.
- What areas have been covered in past assignments.
- Any areas identified for future coverage from the previous assignments.
- Information ascertained from scoping meeting / correspondence with the responsible Line Management.

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- Any control weaknesses identified in previous assignments where corrective action needs to be followed up.
- Any information stemming from consultation with Senior Management at the annual Audit Planning stage.
- Information gathered from the Auditors research into current issues affecting the area and any best practice guidance relating to the area.

The Auditor records the scope of the assignment in the standard Job Control Sheet in our Audit Management System which once again prompts an Assistant Audit Manager via email (as well as a via a specific Review tab in the Audit Management System) to inform them that a scope has been produced for the assignment which is ready for their review and approval. As appropriate, the responsible Line Manager is sent a copy of the Job Control Sheet for them to formally acknowledge their agreement to our proposals.

Conformance with Procedures, Ethics & Standards

Conduct of Engagements

We have created a bespoke Automated Working Papers package using MS Word, MS Excel and MS Access which reflects our own working practices that are designed to ensure adherence to Auditing Standards. The package was introduced to make efficiency savings, but it also ensures uniformity of process. By using these automated processes, the audit assignment has to be completed in a particular way, the same standard documents have to be used and the same formatting is applied. Many tasks have been automated, such as populating other working papers with

relevant information and automatically producing draft and final reports which reduces the need to copy and paste. Our Automated Working Papers package governs the following processes:



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Audit Management System

We have developed a bespoke database which currently governs the following aspects of audit work:

- **Job Control & Progress Tracking** – An auditor-specific homepage, unique job numbering, job control sheets, job risk assessments, job progress dates, auto emails prompting various reviews.
- **Time Recording & Analysis** – Auto generated weekly timesheets, code search facility, flexible time search and reporting facilities.
- **Recommendation Tracking & Automated Follow-ups** – Records recommendation, action status, responsible officer, agreed action date and auto emails responsible officer when action date has passed for a status update, flexible recommendation search and reporting facilities, allows searching for past recommendations.
- **Performance Monitoring** – Individual productivity information as well as overall productivity figures for the service, includes ranking information and comparisons with previous year. Prompts the Auditor and Reviewer to complete post audit assessments based on the Excellent Internal Auditor guidance. Prompts the sending, chasing and recording of customer satisfaction surveys.
- **Management Reporting** – Flexible reporting on time, job progress, customer satisfaction and recommendation status to facilitate Committee and management progress reports.

This system allows individual Auditors and Audit Management to easily determine, the status of each individual audit assignment as

well as the overall Audit Plan and the performance of each member of the team.

Code of Ethics

Internal Audit has produced a policy which sets out principles for minimising and managing potential conflicts of interest for Internal Audit staff. The Head of the Audit Partnership maintains a record of annual declarations of interest and for each audit assignment the Auditor and Manager reviewing the work are required to complete a Declaration of Interest form to identify where any conflicts may exist. Auditors are required to refrain from involvement in assessing specific operations where they have had a previous responsibility or a personal relationship.

Audit Manual

In the past we have developed CIPFA's model Audit Manual to reflect our own documents and working procedures. We have endeavoured to maintain this as an up-to-date point of reference for Audit staff which guides them through the relevant standards and our processes. The recent introduction of the PSIAS has rendered much of the CIPFA model Audit Manual unsuitable. Accordingly, we have committed to producing a revised Audit Manual based around the new standards.

Audit Charter

This Charter provides partner organisations and stakeholders with a formally defined purpose, authority and responsibility of their Internal Audit activity as well providing arrangements for avoiding conflicts of interest.

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It has been developed in accordance with the Public Sector Internal Audit Standards (PSIAS) which took effect from 1st April 2013 and demonstrates that the Central Midlands Audit Partnership is adhering with this Standard.

The PSIAS are based upon the Institute of Internal Auditors (IIA) mandatory guidance which includes a Definition of Internal Auditing, a Code of Ethics and the International Standards for the Professional Practice of Internal Auditing.

Each year, the Head of the Audit Partnership will, in consultation with the Operational Management Board, review this Charter, and submit any recommended amendments, to the Partnership Board for review and approval.

Audit Strategy & Business Plan

The PSIAS states that there is a need for a risk-based plan linked to a strategic / high-level statement on how the service will be provided and developed in accordance with the charter and how this links to the organisation's objectives and priorities.

Our Audit Strategy sets out the overall strategy for the Audit Partnership's internal audit service for the year ahead and the strategic approach to delivering internal audit services. It sets out the following:

- Internal audit objectives and outcomes.
- How the head of internal audit will form and evidence his or her opinion on the control environment to support the annual governance statement.
- How internal audit's work will identify and address significant local and national issues and risks.

- How the service will be provided i.e. internally, externally or a mix of the two.
- The resources and skills required to deliver the service.

Our Business Plan sets out the aims and objectives of the Partnership and links them to the Corporate Visions and Values of our partner organisations. It also identifies the strengths, weaknesses, opportunities and threats for the the Partnership as well as classifying the risks the Partnership is facing.

Both the Audit Strategy and Business Plan must be kept up-to date to reflect the organisations and their changing priorities and needs to be reported to, and approved by, the relevant management bodies on an annual basis. Accordingly, our Strategy and Business Plan needs to be updated to reflect the Audit Charter and the new PSIAS.

Recommendation Follow-up

Automated Process

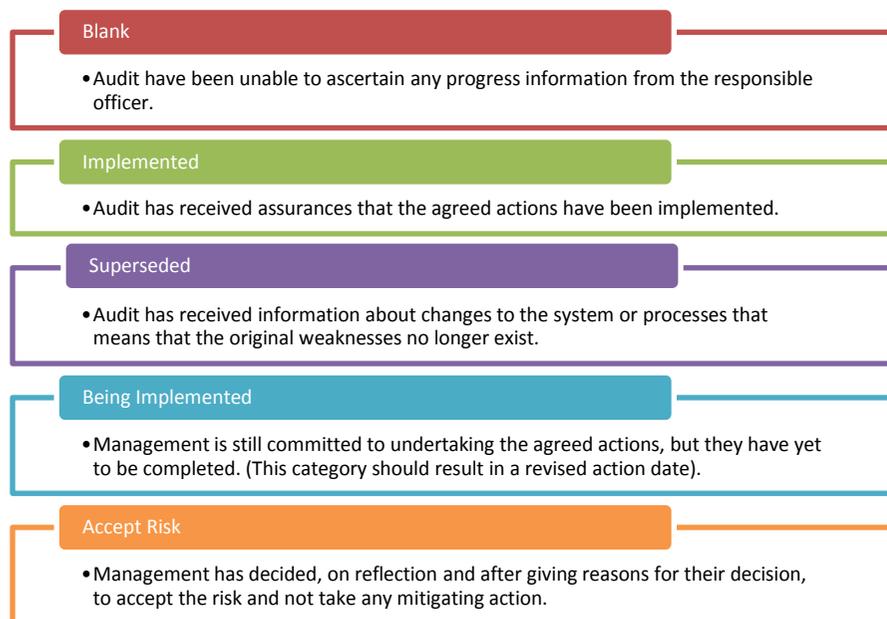
We no longer undertake specific follow up audits, although previous recommendations will be examined the next time the area is audited. We send emails, automatically generated by our bespoke recommendations database, to officers responsible for action where their recommendations' action dates have been exceeded. We request an update on each recommendation's implementation status, which is then fed back into the database, along with any revised implementation dates. Each recommendation can, and usually does, have its own action date and responsible officer, but this doesn't hamper our process.

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We ask managers to let us know when they have implemented the agreed actions in respect of our recommendations. Similarly, if circumstances change to the extent that the planned activity is no longer relevant, we ask managers to keep us informed, so we can update our records.

Action Status

Each recommendation made by Internal Audit is assigned one of the following “Action Status” categories as a result of our attempts to follow-up management’s progress in the implementation of agreed actions. The following explanations are provided in respect of each “Action Status” category:



Audit Committee Reporting

In advance of an Audit Committee meeting, each Chief Officer is also provided with the details of each of the recommendations made to their departments, which have yet to be implemented, and those where an “Accept Risk” response has been provided. This is intended to give them an opportunity to provide Audit with an update position before we report on progress to the Audit Committee.

Every quarter, statistics relating to progress against recommendations are reported the Audit Committee, with summary details being provided on individual recommendations that are taking a long time to implement. This report includes all recommendations where management has decided to accept the risk, and the reasons for this acceptance will be provided to the Committee. Where the Committee feel that insufficient progress has been made, they may call the responsible officers before the Committee to explain in detail why there has been a delay.

Continuous Improvement

Customer Satisfaction

The Audit Section sends out a customer satisfaction survey with the final audit report to obtain feedback on the performance of the auditor and on how the audit was received. The survey consists of 11 questions which require grading from 1 to 5, where 1 is very poor and 5 is excellent.

The overall responses are graded as either:

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Customers are asked to return the completed survey to the Head of the Audit Partnership and responses are treated with strict confidentiality. Customers are also invited to submit any additional comments they wish to make on the form.

Customers are informed that their responses are extremely important as they help us monitor our performance and provide us with information which helps to improve the quality of our service.

The results of customer satisfactions surveys for each organisation are included in our performance reports to each relevant Audit Committee, with an overall report going to the Partnership Board as part of the Balanced Scorecard.

Quality Review Process

Following a closing meeting and prior to issuing the draft report each assignment undergoes a two-stage quality control process. This involves the report being checked by:

- An Assistant Audit Manager to examine the Auditor's file, working papers and report to ensure that:
 - All work undertaken complies with the requirements of professional best practice and appropriate audit techniques have been used.
 - Audit files are complete and properly structured.
 - The objectives of the audit have been fulfilled.
 - Appropriate levels of testing have been carried out.
 - The findings and conclusions are sound and are demonstrably supported by relevant, reliable and sufficient audit evidence.
 - The related audit report is complete, accurate, objective, clear, concise, constructive and timely.
- The Audit Manager to ensure that all recipients of the report would find the contents clear, logical and unambiguous. He will try to ensure consistency of style, quality and stance from across the whole Audit team. The Audit Manager will determine whether the risk assessments of the recommendations and overall control environment opinions will stand up to challenge and are being applied on a consistent basis.

Post Audit Assessment

At the end of each audit, the Auditor is required to score their performance on the assignment in a post audit assessment (based on CIPFA's Excellent Internal Auditor). The Assistant Audit Manager performing the review of the assignment also scores the auditors performance. This exercise is intended to identify any training and development requirements as well as acknowledging any areas of excellent performance.

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Staff Development

Central Midlands Audit Partnership endeavours to develop and maintain an internal audit team which possesses the necessary capacity, skills and knowledge to successfully deliver the audit plans of the partners and stakeholders in their entirety. We apply staff in the most effective way in accordance with their experience and skills and in accordance with the Audit Standards.

Our current team has in excess of 200 years of public sector audit experience. Team members hold a variety of academic and professional qualifications. We have 5 CCAB qualified accountants, 3 officers are PIIA qualified (IIA Diploma in Internal Audit Practice), 4 officers hold CIPFA's Certificate in Investigative Practices Qualification, 1 officer is qualified with the Institute of Revenues Rating and Valuation and both members of our IT Audit team have recent degrees in computing as well as professional IT qualifications (ITIL and CISA). ITIL (IT Infrastructure Library) is the industry recognised standard for best practices in the provision of IT infrastructure management and service delivery and the Certified Information Systems Auditor (CISA) program has been the globally accepted standard of achievement among information systems audit, control and security professionals. All 4 members of Internal Audit's management team have recently completed the University of Derby's accredited programme on Managing and Working in a Mobile Workforce.

We develop the skills and competencies of our staff through a systematic appraisal, development and training process. We aim to ensure that:

- Internal audit staff have appropriate qualifications, skills and competencies and are continuously developed.

- The professional and training needs of staff are assessed and monitored and staff are set meaningful performance objectives.
- The internal audit service is continuously developing and improving.

Each year Internal Audit staff receive an appraisal and are measured against the skills and competencies framework described in CIPFA's Excellent Internal Auditor publication. This is used to identify the training and development needs of individuals. Regular staff appraisals are undertaken to ensure that we are improving by having a shared understanding about what we need to achieve and developing our people to deliver it. This process helps to provide the consistency, support and guidance that is needed for our staff to work to their highest potential for the benefit of the individual and all our stakeholders.

Each year as part of the staff appraisal process, a development objective is agreed with each member of the team, which gives them the opportunity to develop their skills by taking on a task that will benefit the whole team.

We are currently developing and supporting our workforce as follows:

- One member of the team is studying for the Institute of Internal Auditors (IIA) Advanced Diploma professional qualification.
- To keep staff up-to-date with the latest practices in public sector auditing, we will continue to support officers' attendance at the annual CIPFA in the Midlands Audit Training Seminars (CATS).

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- We continue to send officers on relevant CIPFA courses, utilising the 4 free places afforded to us by our membership of CIPFA's Better Governance Forum.
- Our IT Audit team maintain their cutting edge knowledge through their attendance at Open Web Application Security Project (OWASP) seminars and their membership the First Forensic Forum (F3).
- To keep abreast of audit best practices, various members of the team attend audit management and practitioner group meetings.
- One member of the team is also a member of CIPFA's Technical Information Services 'TISonline' Internal Audit Editorial Board, which is a web service seeking to operate as a hub of best practice guidance to public sector financial managers.

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Periodic Reviews

Self Assessment to PSIAS Standards

The Public Sector Internal Audit Standards (PSIAS) came into force on 1 April 2013 to create consistent standards for the practice of internal audit across the public sector and establish the basis for its quality assurance. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

The PSIAS and the Local Government Application Note together supersede the 2006 CIPFA Code of Practice for Internal audit in Local Government in the United Kingdom (2006 Code). The Application Note has been developed as the sector specific requirements for local government organisations.

A checklist has been developed by CIPFA to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the QA & IP. It incorporates the requirements of the PSIAS as well as the Application Note in order to give comprehensive coverage of both documents. An initial desk top review of the PSIAS has been carried out using the checklist by the Head of the Audit Partnership.

Due to the fact that the Central Midlands Audit Partnership was fully compliant with the 2006 CIPFA Code of Audit Practice, the majority of the requirements of the new PSIAS have already been achieved without any need to change existing practices.

Annual Audit Risk Assessment

To assist with our annual Audit Risk Assessment process, we have developed the following risk assessment model which incorporates eight risk factors which encapsulate the risks in the Audit universe:

Materiality	•Potentially, how much money could the Council lose if this auditable area is not properly controlled?
Criticality	•How critical is this function to the effective running of the Council's core activities?
Sensitivity	•How important is this auditable area in the opinion of corporate management?
Strategic Effect	•How does this function affect the Council's long term aims and objectives?
Changes	•How much have things changed in this auditable area since audit were last involved?
Complexity	•How complicated is this auditable area?
Review Process	•How long has it been since this auditable area has been looked at?
Inherent Risks	•How susceptible is this auditable area to fraud and irregularity?

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Risk is composed of the two elements: likelihood and impact. The first four risk factors listed above relate to the impact if the risks were to occur; the last four are concerning the likelihood of the risks occurring.

We score the risk factors, between one and five, for each auditable area. Our risk model automatically determines which auditable areas will be looked at more often than others. Those areas with risk scores in the higher frequency stratifications should be looked at more often than those with lower risk scores. Similarly, the auditable areas with risk scores in the highest workday stratification should be allocated more time than those with lower risk scores. The workday allocations applied to each type of Audit work is different for each organisation we serve.

Once the scores for each auditable area have been input to the risk model, along with the date when the area was last audited, the risk model will automatically generate a five-year rolling plan of suggested audit coverage for those auditable areas that can be risk assessed.

To create an achievable tactical plan the first year of the five-year rolling plan needs to be adjusted to fit with resources available.

Management are consulted on the proposed tactical plan and their views are taken account of before producing the final, ranked list of auditable areas requiring Audit attention.

Discussions are also undertaken with the External Auditors to ensure that the proposed coverage is in accordance with their expectations and does not duplicate any work they propose.

Activity Reporting to Audit Committees

Approximately each quarter year we provide each Audit Committee with progress reports on the audit services provided during the period.

We provide the following in each report:

- A summary of our progress against each assignment the agreed plan.
- A summary of the key findings of each assignment finalised during period and their overall assurance rating.
- How we are faring against a couple of key performance measures (i.e. current customer satisfaction levels and how we are performing against our Audit Plan achievement target)
- An overview of the current implementation status of all agreed actions to address the control weaknesses highlighted by audit recommendations.
- Summary details of those recommendations still in the process of 'Being Implemented' and those that have passed their due date for implementation.
- Full details of any recommendations where management has decided not to take any mitigating actions.

Performance Measurement

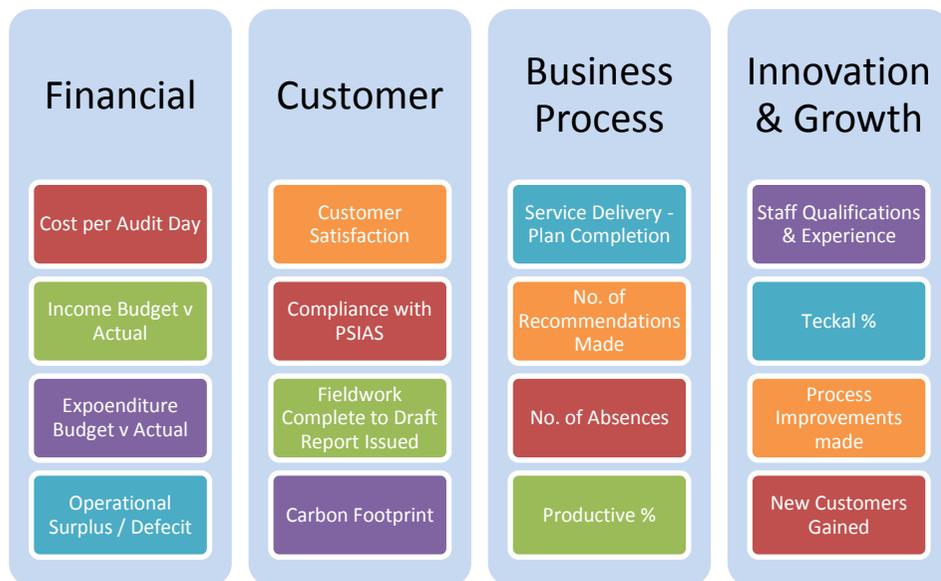
A Balanced Scorecard approach to audit performance has also been adopted to ensure that the efficiency and effectiveness of the internal audit activity can be monitored and opportunities for

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improvement and development can be identified. Our balanced scorecard approach takes a strategic view on the performance of the service from four different perspectives:

- **Financial** – To succeed financially, how should we appear to our stakeholders?
- **Customer** – To achieve our vision, how should we appear to our customers?
- **Business Process** – To satisfy our stakeholders and customers what business processes must we excel at?
- **Innovation & Growth** – To achieve our vision, how will we sustain our ability to change and improve?

For each perspective, we have developed four different metrics:



All of which are reported on, in detail, to the Head of the Audit Partnership and the Partnership Board at regular intervals.

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External Assessment

General Considerations

External assessments will appraise and express an opinion about internal audit's conformance with the Standards, Definition of Internal Auditing and Code of Ethics and include recommendations for improvement, as appropriate.

Timing

An external assessment must be conducted every five years.

Scope of External Assessment

An external assessment will consist of a broad scope of coverage that includes the following elements of Internal Audit activity:

- Conformance with the Standards, Definition of Internal Auditing, the Code of Ethics, and internal audit's Charter, plans policies, procedures, practices, and any applicable legislative and regulatory requirements.
- Expectations of Internal Audit as expressed by the Partnership Board, Operational Board, and operational managers.
- Integration of the Internal Audit activity into Partner organisations' governance process, including the audit relationship between and among the key groups involved in the process.
- Tools and techniques used by Internal Audit.

- The mix of knowledge, experiences, and disciplines within the staff, including staff focus on process improvement.
- A determination whether Internal Audit adds value and improves each Partner's operations.

Considerations

The qualifications and considerations of external reviewers as noted in The IIA's Practice Advisory 1312-1 will be considered when contracting with an outside party to conduct the external review.

Results of external assessments will be provided to the Partnership Board and the Audit Committee. The external assessment report will be accompanied by a written action plan in response to significant comments and recommendations contained in the report.

The Head of the Audit Partnership will implement appropriate follow-up actions to ensure that recommendations made in the report and action plans developed are implemented in a reasonable timeframe.

The partnership has yet to determine when and how any external assessment will be conducted.

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Improvement Plan

ACTION	DATE	RESPONSIBLE OFFICERS
Develop this QAIP document.	December 2013	HoAP, Audit Manager
Develop an Internal Audit Charter	December 2013	HoAP, Audit Manager
Produce a revised Internal Audit Strategy and Business Plan which links the Internal Audit Charter to a risk based Audit Plan as well as all the organisational objectives and priorities of the Partner organisations.	February 2014	HoAP, Audit Manager
Re-perform a Self-assessment of the Partnership's compliance with the PSIAS using CIPFA's checklist following the production of the Audit Charter and QAIP.	February 2014	HoAP, Audit Manager
Develop a new Audit Manual which links to the new PSIAS.	September 2014	Audit Manager, Assistant Audit Managers
Determine when an External Assessment should be carried out and how this will be undertaken.	February 2014	HoAP
Consider whether any Assurance Mapping methodologies will add value to partner organisations	March 2014	Audit Manager, Assistant Audit Managers
Seek to ensure the independence of the Head of the Audit Partnership is safeguarded by ensuring that his performance assessment is not inappropriately influenced by those subject to audit.	September 2014	HoAP