

Report To:	Audit and Standards Committee
Date:	18 March 2019
Report Title:	Audit and Counter Fraud Annual Plan 2019/20
Report of:	David Heath, Head of Audit and Counter Fraud
Ward(s) Affected	All
Purpose of Report:	To present to Councillors the Annual Plan for 2019/20.
Officer recommendations:	To agree the Annual Plan for 2019/20 (as shown at Appendix 1)
Reasons for recommendations	The remit of the Audit and Standards Committee includes the duties to agree an Annual Plan of Internal Audit and Counter Fraud work and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the arrangements for identifying and managing risk.
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1 Introduction

- 1.1** The Chartered Institute of Public Finance and Accountancy (CIPFA) has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that were first applied from 1 April 2013. The PSIAS were updated in March 2017. The updated standards are not materially different from the previous version, and so have not been separately reported to the Committee.
- 1.2** The PSIAS require the Head of Audit and Counter Fraud (HACF) to prepare a strategic statement of how the Internal Audit service will be delivered and developed in accordance with the Internal Audit Charter, and for there to be a risk based plan that sets out the priorities for Internal Audit activity. The plan must show the audit engagements to be carried out, their respective priorities and the resources required.

2 Impact of the Joint Transformation Programme (JTP)

- 2.1** In September 2015, Cabinet approved a strategy for the development of shared services between Lewes District Council (LDC) and Eastbourne Borough Council (EBC) based on the integration of the majority of council services via a Joint Transformation Programme (JTP).
- 2.2** Prior to the start of the JTP, the strategic statement and the audit plan were normally combined into a three year Strategic Audit Plan that was presented to the Audit and Standards Committee for approval. The changes that continue to be being made as part of the JTP integration process mean that Internal Audit is not able to prepare a meaningful programme of audits for the second and third years of the Strategic Audit Plan. HACF is therefore proposing that, as was the case for 2018/19, only the Annual Plan for 2019/20 is presented to the Audit and Standards Committee. The draft Annual Plan for 2019/20 is given at Appendix 1. The Annual Plan covers the work to be done by both Internal Audit and Counter Fraud.
- 2.3** The formal integration of the Internal Audit and Counter Fraud Teams in both councils took place on 1 July 2017. The Annual Plan 2019/20 is a single plan covering the work to be done at both councils. The same plan has been presented to the Audit and Governance Committee at EBC, albeit in a slightly different format in keeping with that Committee's requirements.
- 2.4** Together with a number of other corporate services, the third and final phase of the JTP process has included Audit and Counter Fraud. The results of the consultation process were confirmed in mid-February 2019, and there are ongoing discussions on the detail of the next steps. These include the departure of the HACF and the creation of a new post of Chief Internal Auditor, the departure of one of the Audit Managers, and the creation of a new Auditor post. Recruitment to the vacant posts is underway. The Annual Plan 2019/20 reflects the resources provided by the new structure.

3 Aims and Objectives for Audit and Counter Fraud

- 3.1** Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic and disciplined approach to evaluating the effectiveness of risk management, control and governance processes.
- 3.2** Counter Fraud is an independent and objective activity designed to help prevent and detect fraud, and undertake appropriate investigations when necessary. Working together, these activities help the councils accomplish their objectives by bringing a systematic and disciplined approach to improving the effectiveness of risk management, control and governance processes.

3.3 The PSIAS include a Mission Statement for Internal Audit as follows

‘To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.’

3.4 The Core Principles for the Professional Practice of Internal Auditing, which form part of the updated PSIAS, have been incorporated into the revised Charter for Internal Audit that was presented to the Committee in January 2018.

3.5 The Audit and Counter Fraud service for EBC and LDC is provided internally, and has the following service objectives:

- To provide an efficient and effective Internal Audit function which achieves its service standards, and improves performance where possible.
- To deliver the councils’ Audit Plan.
- To provide an efficient and effective Counter Fraud Team that supports the councils’ Anti-Fraud and Corruption Strategy by carrying out a planned programme of work to help prevent and detect fraud, and provide resources to investigate suspected fraud cases.

4 Planning Assumptions

4.1 In preparing the Annual Plan, HACF has taken account of the adequacy and outcomes of the councils’ risk management, corporate governance and other assurance processes. The Annual Plan has been drawn up on the basis that the Audit and Counter Fraud service will:

- Undertake annual testing of the key financial systems, and supplement this work as appropriate with system reviews based upon a detailed gap analysis and risk assessments.
- Undertake annual testing of the Housing Benefits subsidy grant claim on behalf of BDO and Deloitte LLP.
- Provide advice on corporate management activities such as risk management, corporate governance and performance management and to review their effectiveness within the councils.
- Undertake follow up to determine whether agreed recommendations have been implemented.
- Provide advice to managers on financial and control issues, and the measures to prevent and detect fraud.
- Include an element of contingency to cover assignments that could not have reasonably been foreseen, and to meet management requests for consultancy assignments, special investigations, and strategic projects.
- Provide an agreed level of resources (36 audit days) for audits for Eastbourne Homes Limited.
- Carry out a programme of planned and responsive work to prevent, detect and investigate fraud across all the councils’ services and activities.

- Carry out all audits at both authorities, unless the area under review is administered by just one authority.

4.2 The scope of the Annual Plan is designed to enable Internal Audit to form an annual opinion on the Council's internal control and governance framework, and to obtain the necessary assurance for the purposes of the Annual Governance Statement (AGS).

5 Relationship with external auditors

5.1 The Government relies on external auditors to periodically review the work of the councils to make sure it is meeting its statutory obligations and performing well in its services. Internal Audit operates in accordance with a joint protocol with the external auditors that ensures an integrated audit approach that makes efficient use of resources and prevents duplication of work.

5.2 Under the provisions of the Local Audit and Accountability Act 2014, the Secretary of State for Communities and Local Government has specified that a company, Public Sector Audit Appointments (PSAA) Limited, will appoint auditors to local government, police and some NHS bodies. Both LDC and EBC opted into the PSAA arrangements, and were consulted on the appointment of the external auditor for the five year period from 2018/19. PSAA have appointed Deloitte LLP, and the councils have confirmed their acceptance of the appointment, which started on 1 April 2018.

5.3 During 2019/20 Internal Audit will work with BDO in testing the Housing Benefits subsidy grant claims for 2017/18 and with Deloitte LLP in the testing of the corresponding claim for 2018/19. It is forecast that the testing will again require significant Internal Audit resources.

5.4 Internal Audit decides the scope and content of the work on the key financial systems (see 7.3) that will be required to obtain the necessary assurance for the purposes of the AGS. Internal Audit will ensure that the Deloitte LLP requirements for information on the adequacy of controls for the purposes of the 2018/19 accounts will be met.

6 Other sources of assurance

6.1 The councils operate a management assurance system, which enables senior officers to confirm the proper operation of internal controls in those services for which they are responsible. This system is a key part of the councils' governance framework, which is reviewed annually by Internal Audit. The results of this review and the outputs from the management assurance system are reported in the AGS.

Preparation of the Annual Audit Plan

7 Review of Key Council Activities

7.1 This review is based on information from the Council Plan, the Council's Strategic Risk Register, the Council's Assurance Framework, Council Service Plans, Cabinet reports and other known developments. The following issues are highlighted.

Council Transformation

7.2 Internal Audit will review the Annual Plan for 2019/20 after nine months to assess whether any significant changes are necessary in response to the ongoing restructuring of the councils' services. A report on the results of the review will be presented to the January 2020 meeting of the Committee.

Key Financial Systems

7.3 Internal Audit undertakes the review and testing of the key financial systems every year to provide assurance for the AGS. The work for the 2018/19 exercise is underway. To help in the planning and monitoring of these reviews, the resource requirements are shown against each key system.

7.4 As the JTP progresses, individual shared services will continue to be located in both Eastbourne and Lewes or they may become more centralised in one or other location. Internal Audit reviews of the services will reflect these changes as appropriate. For example, key financial functions such as Payroll, Treasury Management and Creditors serve both councils, and the internal audit work on these functions will be done as joint audits as part of the Annual Audit programme.

Housing Benefit Subsidy Claim

7.5 The annual exercise to verify the Housing Benefit Subsidy Claims for both authorities remains a key commitment. This work requires considerable time and resources because if the audit identifies any error in the administration of benefits there must be extra testing to confirm the extent and impact of the error. Internal Audit works with operational teams to identify the reasons for errors and develop fixes, but the amount of work required to verify the subsidy claims has not decreased. The time required for this work in 2019/20 is reflected in the Annual Plan, but there is also provision for a project that will involve close working with operational service managers and staff to try to improve the quality of the data which forms the basis for the subsidy claim.

General

7.6 The Annual Plan includes contingencies for unforeseen work and, consultancy reviews and strategic projects that enable Internal Audit to be flexible and to adapt its coverage to address changing priorities.

7.7 For consultancy assignments carried out by any member of Internal Audit, the follow up of the results are carried out by team members other than those involved in the

original work. Standard audits of areas/topics covered by recent consultancy studies will apply the same disciplines to ensure the independence of Internal Audit and avoid conflicts of interest.

- 7.8** The outline plan of Internal Audit assignments and the main areas of work for the Counter Fraud Team are given at Appendix 1. In calculating the resources to be assigned to these tasks provision has been made for non-chargeable time (eg administration, training, leave and sickness).

8 Application of the Risk Assessment Model

- 8.1** The risk model assesses each activity under three categories: financial materiality, system stability, and the adequacy of internal control. Each category is scored on a weighted scale from 1 to 5, with the greater risks receiving the higher scores. Audits are assigned to one of three risk bandings as follows:

- 1 High Risk
- 2 Medium Risk
- 3 Low Risk

- 8.2** The risk bandings are the start point for selecting areas for review. This assessment process has been applied to the whole audit universe for the current exercise, but only the audits allocated to the audit programme for 2019/20 are shown. The majority of the audits in the audit programme are rated High or Medium Risk. The single Low Risk audit is the audit of Ethics that is carried out every year in order for Internal Audit to comply with PSIAS requirements.

- 8.3** The Annual Audits of the key financial systems are not subject to the risk assessment process.

9 Counter Fraud Team

- 9.1** The work of the team has been planned in accordance with current development and case management priorities. The focus of the work may change as a wider range of potential frauds are considered. For example, the work on Tenancy Fraud will include building relationships with Homes First and Account Management in order to elicit more referrals. Private Sector Housing, Disabled Facilities Grants and Procurement are areas that have seen no fraud work to date, and these areas will be assessed to see how best any investigations can be approached.

- 9.2** Counter Fraud work in the areas of Council Tax and Council Tax Reduction result in lower amounts of savings than other work. However, these savings are actual cashable savings to the Council.

10 Allocation of Staff Resources

- 10.1** The planned level of staffing for Internal Audit (7 FTE) for 2019/20 reflects the new post JTP3 structure, although some posts remain to be filled.
- 10.2** The current staffing level for Counter Fraud (4.3 FTE) will continue in 2019/20 with recruitment taking place to fill a recent vacancy.

11 Financial Appraisal

- 11.1** There are no financial implications arising from the recommendations in this report other than those already contained within existing budgets.

12 Legal Implications

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

13 Risk Management Implications

- 13.1** If the Council cannot demonstrate an effective Internal Audit function it will not meet its statutory obligations. The Annual Plan, together with the associated monitoring of the plans via the regular reporting to the Audit and Standards Committee, represents a key part of the control framework that helps to ensure the effectiveness of Internal Audit.

14 Equality Analysis

- 14.1** An equalities impact assessment is not considered necessary because the report is an internal planning document and involves no key decisions.

15 Background Papers

None.

16 Appendices

Appendix 1 – Audit and Counter Fraud Annual Plan 2019/20

Appendix 2 - Table of abbreviations

Appendix 1

AUDIT AND COUNTER FRAUD ANNUAL PLAN 2019/20

	2019/20 Planned Days	Risk
Internal Audit		
Annual Audits		
Housing Benefits -Lewes	15	
Housing Benefits - Eastbourne	15	
Council Tax - Lewes	10	
Council Tax - Eastbourne	10	
NNDR - Lewes	10	
NNDR - Eastbourne	10	
Cash and Bank - Joint	15	
Creditors - Joint	20	
Debtors - Joint	20	
Rents - Joint	20	
Main Accounts - Joint	15	
Payroll – Joint	10	
Treasury Management - Joint	10	
IT - Joint	8	
Theatres - Joint	5	
Total	193	
Other Work		
Housing System - CX	20	High
Leaseholder Service Charges and Recharges	20	High
Business Continuity and Disaster Recovery	20	High
RIPA	15	High
Tenancy Management	20	High
Aids and Adaptations	20	Medium
Stage Door/EDGC and Catering	20	Request
Members Allowances	15	Medium
Ethics	15	Low
Internet/Intranet/Telephone Payments.	15	Medium
IT Security and Networks	10	Medium
Theatres	15	Medium
Voids Management	20	Medium
Human Resources (HR)	20	Medium
Partnerships	20	Medium
Project Management	20	Medium
Data Protection	15	Medium
Total	300	

	2019/20 Planned Days	Risk
Housing Benefit Subsidy and Subsidy Project	450	
Follow up of audits from previous years	30	
Contingency	56	
Advice/Special Investigations	30	
Joint Audit/Fraud Projects	25	
CIA Strategic Projects	100	
Total Internal Audit Days	1184	
Counter Fraud		
Tenancy Fraud	347	High
Right to Buy (RTB)	180	High
Council Tax/CTR	78	Medium
Private Sector Housing/DFG	45	Medium
NNDR	40	Medium
Procurement	15	Low
Housing Benefit/DHP	50	Low
Data Matching/Other	20	Low
Total Counter Fraud Days	775	
Total Audit and Counter Fraud Days	1959	

Appendix 2

Table of abbreviations

AGS – Annual Governance Statement

BCP – Business Continuity Planning

BDO – BDO, the Council's external auditors. Formerly BDO Stoy Hayward

CIPFA – Chartered institute of Public Finance and Accounting

CMT – Corporate Management Team

CTRS – Council Tax Reduction Scheme

DFGs – Disabled Facilities Grants

DWP – Department of Work and Pensions

EBC – Eastbourne Borough Council

ESFOG – East Sussex Fraud Officers Group

HACF – Head of Audit and Counter Fraud

HB – Housing Benefit

HRA – Housing Revenue Account. Refers to Council owned housing

ISO – International Organisation for Standardisation

IT – Information Technology

JTP – Joint Transformation Project

LDC – Lewes District Council

LLP – Limited Liability Partnership

NFI – National Fraud Initiative

PIs – Performance Indicators

PSIAS – Public Sector Internal Audit Standards

QAIP – Quality Assurance and Improvement Programme

RIPA – Regulation of Investigatory Powers Act

RTB – Right to Buy

SFIS – Single Fraud Investigation Service