

Agenda Item No: 7 **Report No:** 49/13
Report Title: Strategic Audit Plan
Report To: Audit Committee **Date:** 18 March 2013
Ward(s) Affected: All
Report By: Director of Finance
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Purpose of Report:

To present to Councillors the Strategic Audit Plan for the three year period 2013/14 to 2015/16.

Officers Recommendation(s):

- 1 To agree the Annual Audit Plan for 2013/14 (as shown at Appendix 1)
 - 2 To agree the three year Strategic Audit Plan for 2013/14 to 2015/16 (as shown at Appendix 2).
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Reasons for Recommendations

The remit of the Audit Committee includes a duty to agree an Annual Audit Plan and a three year Strategic Audit Plan, and keep them under review.

Information

1 Background

- 1.1 The Internal Audit function at Lewes operates in accordance with the auditing guidelines published by the Chartered Institute of Public Finance and Accountancy (CIPFA). 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 will apply from 1 April 2013.
- 1.2 The 2013 PSIAS show some changes from the 2006 CIPFA Code of Practice that previously guided the operation of the Internal Audit function at Lewes.

These changes are outlined in a separate report that is presented to this meeting of the Committee.

- 1.3 The 2013 PSIAS requires the Head of Audit and Performance 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. As previously, the strategic statement document and audit plan are combined into a Strategic Audit Plan that is presented to the Audit and Standards Committee for approval.
- 1.4 The main focus of the planning process is on the first year of the Strategic Audit Plan, which provides the Annual Audit Plan for 2013/14. The Strategic Audit Plan is reviewed each year so that it can reflect the changing risks and priorities for the Council.

2 Purpose and Objectives

2.1 In order to comply with the 2013 PSIAS the Strategic Audit Plan is required to:

- Show a plan of Internal Audit engagements that is based on a documented risk assessment, undertaken at least annually.
- State how the Council's framework of governance, risk management and control will be reviewed in order to obtain assurance for the annual audit opinion for the purposes of the Annual Governance Statement (AGS).
- Explain how Internal Audit's resource requirements have been assessed.
- Explain the approach to using other sources of assurance.
- Outline the audit engagements to be carried out, their respective priorities and the resources required.
- Set out the relative allocation of resources between the work to obtain assurance on the internal control framework and any consulting work to provide advice.

3 Aims and Objectives for Internal Audit

- 3.1 Internal Audit at Lewes 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, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 3.2 The Internal Audit function is provided internally, and staffing resources are assessed at the level necessary to ensure audit coverage of the key areas within the three year cycle. The staffing of Internal Audit is as approved by the Council on 23 February 2000.
- 3.3 Internal Audit at Lewes 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 Council's Annual Audit Plan and Strategic Audit Plan.
- 3.4** The desired outcome is for the Council to be able to demonstrate an effective control environment with no significant control issues, and to provide a satisfactory and unqualified audit opinion in its Annual Governance Statement (AGS).
- 3.5** The Council's AGS reports on the effectiveness of the framework of governance, risk management and control and is approved by the Audit and Standards Committee at its September meeting. The AGS is based upon the results from the Council's assurance arrangements, and the work by Internal Audit and the Council's external auditors, PKF.

4 Strategic Planning Assumptions

- 4.1** In preparing the Strategic Audit Plan, the Head of Audit and Performance has taken account of the adequacy and outcomes of the Council's risk management, corporate governance and other assurance processes. The Strategic Audit Plan has been drawn up on the basis that Internal Audit will:
- Undertake annual testing of the key financial systems on behalf of PKF, and supplement this work as appropriate with system reviews based upon a detailed gap analysis and risk assessments.
 - Undertake annual testing of the Benefits and Non Domestic Rates (NDR) subsidy grant claims on behalf of PKF.
 - Examine the main departmental systems at least once in the three year cycle based upon a detailed risk assessment.
 - Examine key aspects of the procedures and controls that support Programme Nexus based upon a detailed risk assessment.
 - Undertake Value for Money (VFM) studies.
 - Undertake environmental audits in support of the Council's EMAS registration.
 - Carry out a programme of specialist computer audits.
 - Undertake follow up work to determine whether agreed recommendations have been implemented.
 - Provide advice on corporate management activities such as risk management, corporate governance and performance management and to review their effectiveness within the Council.
 - Provide advice to managers on financial and control issues.
 - Include an element of contingency to cover assignments that could not have reasonably been foreseen, and to meet management requests for investigations.
- 4.2** PKF and Internal Audit operate in accordance with a joint protocol that ensures an integrated audit approach that makes efficient use of resources and

prevents duplication of work. The Strategic Audit Plan 2013/16 reflects this integrated approach as outlined below, and includes provision for the resources necessary to manage the relationship with PKF.

- 4.3** The joint protocol with PKF includes an agreement that Internal Audit will undertake the review and testing of the key financial systems every year. The work for 2012/13 is underway, and continues with the increased level of testing that was introduced in 2010/11 to meet revised international audit standards. This approach has required additional Internal Audit resources, and it is assumed that the higher levels of resources will continue for the period of the Strategic Audit Plan 2013/16.
- 4.4** To help in the planning and monitoring of the reviews of the key financial systems, the resource requirements are shown against each key system with only the time required for the management and coordination of the overall exercise shown under the heading Managed Audit.
- 4.5** PKF have advised that their work on Fixed Asset accounting is sufficiently detailed and wide ranging that Internal Audit need not cover the Fixed Asset subject. Accordingly, it is not included in the universe of audits for the period of the Strategic Audit Plan 2013/16. Separate audits of Service Charges and Car and Travel Allowances are no longer required as the testing of these systems is now accommodated within the annual work on Income and Payroll respectively.
- 4.6** During 2012/13, Internal Audit worked with PKF in carrying out testing of the Benefits and NDR subsidy grant claims for the previous year of account, and increased levels of testing required more Internal Audit resources than previously. To ensure that the resources required for these audits remain proportionate, Internal Audit will limit coverage to those parts of the systems that must be verified for the grant claims and the annual system testing, plus any other controls highlighted by risk assessments.
- 4.7** PKF's Annual Audit Plan for 2012/13 was reported to the Audit and Standards Committee in January 2013, and identified a small number of emerging issues in respect of Municipal Mutual Insurance (MMI), purchasing procedures, the valuation of infrastructure, the medium term financial strategy and the Nexus programme. Some of these issues are specifically targeted in the Strategic Audit Plan, and there is a general provision for Internal Audit review of other emerging risks that is included under Performance and Management Review.
- 4.8** Internal Audit assesses the risks of fraud and corruption as part of this planning process and, where appropriate, individual audits include review of the internal controls that mitigate these risks.

Preparation of the Annual Audit Plan and Strategic Audit Plan

5 Review of key Council activities

- 5.1** This review is based on information from the Budget Book, the Council Plan, the Council's Risk Register, Council Service Plans, Cabinet reports and other known developments, and PKF's Audit Plans. The universe of Council activities is largely that reflected in the previous Strategic Audit Plan, but the following issues are highlighted.
- 5.2** The Computer Audit coverage includes provision for:
- Internal Audit work on the Implementation of New Systems to enable comment on specifications, procedures and controls, and to provide input to the project teams. This contingency for unforeseen work on IT issues has been increased in recognition of the recent frequency of requests for Internal Audit advice and comment (see 5.3 below).
 - The testing of key IT controls as part of the annual work with PKF.
 - A combined audit of IT Security and IT Networks. A risk assessment and gap analysis indicates that the separate audit of IT Networks is no longer necessary and it has been removed.
- 5.3** The Strategic Plan includes a contingency for unforeseen work that enables Internal Audit to be flexible and to adapt its coverage to address changing priorities. This contingency has been divided between IT (Implementation of New Systems) and non IT (Unplanned Audits) subjects to enable improved accounting for the tasks that comprise this work.
- 5.4** Internal Audit resources are regularly employed in supporting the Council's procurement processes. This work is accounted for under Tendering Arrangements or, if it is a significant review, as a specific study under Unplanned Audits. The audit of Departmental Contracts is therefore no longer necessary and has been removed from the universe.
- 5.5** There has been consultation with service managers on the content of the Audit Plan for 2013/14. This consultation has identified some operational and development issues that has influenced the placement of the audits in the three year cycle, and the scheduling of the individual audits in the year.
- 5.6** The Council is committed to continuing with EMAS as its environmental management system at least up until the end of the current registration period in March 2014. The Strategic Audit Plan includes audits of EMAS for the three year period of the plan, and the audits listed for the last two years are those that would take place if the EMAS registration is extended beyond March 2014. The decision as to the future of EMAS beyond March 2014 will be taken by Cabinet.
- 5.7** Three audits that have been started in 2012/13 – Insurance, Communications and Economic Development – are forecast to be completed in 2013/14.

6 Application of the Risk Assessment Model

- 6.1** The risk model assesses each activity under six categories: financial materiality, system stability, sensitivity, complexity, inherent risk and the adequacy of internal control. Each category is scored on a scale from 1 to 9, with the greater risks receiving the higher scores. The total score for each activity determines the frequency of audit coverage. Audits are assigned to one of three frequency bandings as follows:
- 1 Audited every year
 - 2 Audited every other year
 - 3 Audited no more than once every three years
- 6.2** The assignments within the first year of the Strategic Audit Plan are prioritised, and this forms the basis for the scheduling of audit work. The Annual Audit Plan for 2013/14 at Appendix 1 shows the assignments categorized as High, Medium or Low priority.
- 6.3** There are areas of activity that are assessed as having very low risk. These have been left out of the programme of audits in the Strategic Audit Plan, and are listed at Appendix 3. These activities remain part of the database of potential audits and will be reassessed as part of next year's Strategic Audit Plan.
- 6.4** Internal Audit is involved in some other activities every year although they are not subject to the Strategic Plan's risk assessment process. These include the work on risk management and corporate governance, and the time set aside for VFM Reviews, work on the Council's AGS and issues arising from Programme Nexus. There are also ongoing management responsibilities such as the support to the Audit Committee, Follow Up and Liaison with External Audit.

7 Allocation of Staff Resources

- 7.1** Table 1 below summaries the resources allocated to the main audit areas after making provision for administration, training, leave and sickness.

Table 1: Summary of staff resources for 2013/14 to 2015/16

Year	2013/14	2014/15	2015/16
Audit Area	Audit Days	Audit Days	Audit Days
Key Financial Systems	245	245	245
Central Systems	90	85	80
Departmental Systems	155	150	150
Performance and Management Review	74	74	74
Computer Audit	60	60	70
Environmental Audit	33	36	36
Management Responsibilities / Unplanned Audits	117	118	107
Total	774	768	762

- 7.2** The variations in the resource allocations across the three years reflect the need to balance audit coverage across the key areas, taking account of previous audits undertaken and the priorities identified by the planning process.
- 7.3** The fewer days available in 2015/16 are largely due to extra bank holidays, with there being two Good Friday holidays (3 April 2015 and 25 March 2016) and two Easter Monday holidays (6 April 2015 and 28 March 2016) in the financial year.
- 7.4** Internal Audit forms part of the Audit and Performance Division that is responsible for a range of activities related to corporate governance and performance management. As in previous years, the Strategic Audit Plan includes an 80/20 apportionment of the time of the Head of Audit and Performance between these other activities and internal audit work, and this is reflected in Table 1.

8 Financial Appraisal

- 8.1** There are no additional financial implications arising from this report.

9 Sustainability Implications

- 9.1** I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is an internal planning report.

10 Risk Management Implications

- 10.1** I have completed a risk assessment in accordance with the Council's Risk Management methodology. The following risks and mitigating factors have been identified.
- 10.2** If the Council cannot demonstrate an effective Internal Audit function it will not meet its statutory obligations. The Annual Audit Plan and Strategic Audit Plan, together with the associated monitoring of the plans via the regular reporting to the Audit and Standards Committee, represent key parts of the control framework that helps to ensure the effectiveness of Internal Audit.

11 Equality Screening

- 11.1** I have given due regard to equalities issues and, as this is an internal planning report with no key decisions, screening for equalities is not required.

12 Background Papers

None.

13 Appendices

Appendix 1 Annual Audit Plan 2013/14

Appendix 2 Strategic Audit Plan 2013/16

Appendix 3 Low risk areas excluded from the Strategic Audit Plan 2013/16

Appendix 1

LEWES DISTRICT COUNCIL: ANNUAL AUDIT PLAN

Audit Area	20013/14 Days	Priority
Cash and Bank	10	HIGH
Council Tax	5	HIGH
Expenditure and Creditors	15	HIGH
Grant Claims	140	HIGH
Housing and CT Benefits	10	HIGH
Housing Rents	10	HIGH
Income and Debtors	15	HIGH
Investments and Investment Income	10	HIGH
Main Accounting System	10	HIGH
Managed Audit	5	HIGH
NNDR	5	HIGH
Payroll and Employment Costs	10	HIGH
	245	
Central Systems		
Building Maintenance	20	MEDIUM
Complaints Procedures	15	MEDIUM
Communications	15	LOW
DIP/Records Management	15	MEDIUM
Electoral Registration	15	LOW
Insurance	10	MEDIUM
	90	
Departmental Systems		
Building Control	20	MEDIUM
Cemeteries	20	MEDIUM
Estates Management	20	MEDIUM
Housing Repairs	20	MEDIUM
Personnel, Recruitment and Training	15	LOW
Pollution Control	20	MEDIUM
Private Sector Housing	20	MEDIUM
Tourism and Economic Development	20	MEDIUM
	155	
Performance & Management Review		
Review - Annual Governance Statement	1	HIGH
Review - Emerging Risks	5	MEDIUM
Review - Performance Management / Data Quality	3	MEDIUM
Review - Programme Nexus	20	MEDIUM
Review - Risk Management/Corporate Governance	10	MEDIUM
VFM - Budget	35	MEDIUM
	74	

Computer Audit

Implementation of New Systems	25	HIGH
IT Security and Networks	30	HIGH
IT Managed Audit	5	HIGH
	60	

Environmental Audit

EMAS - Environmental Statement	2	MEDIUM
EMAS - Management, co-ordination and review	10	MEDIUM
EMAS - Pollution: Prevention and Control	10	MEDIUM
EMAS - Review of compliance with environmental legislation	10	MEDIUM
EMAS - Verification LRQA	1	MEDIUM
	33	

Management Responsibilities

Attendance at groups	3	
Audit Committee	15	
Audit Planning	10	
Data Matching	5	
Financial Vetting	3	
Follow Up	5	
Liaison with External Audit	3	
Tendering Arrangements	20	
	64	

Unplanned Audits / Investigations

Unplanned Audits / Investigations Provision	53	
	53	

Internal Audit Total**774**

Appendix 2

LEWES DISTRICT COUNCIL: THREE YEAR STRATEGIC AUDIT PLAN

Audit Area	2013/ 2014 Days	2014/ 2015 Days	2015/ 2016 Days	Frequency Years
Key Financial Systems				
Cash and Bank	10	10	10	1
Council Tax	5	5	5	1
Expenditure and Creditors	15	15	15	1
Grant Claims	140	140	140	1
Housing Benefits and CT Reductions	10	10	10	1
Housing Rents	10	10	10	1
Income and Debtors	15	15	15	1
Investments and Investment Income	10	10	10	1
Main Accounting System	10	10	10	1
Managed Audit	5	5	5	1
NNDR	5	5	5	1
Payroll and Employment Costs	10	10	10	1
	245	245	245	
Central Systems				
Building Maintenance	20		20	2
Business Continuity Planning		15		2
Complaints Procedures	15		15	2
Communications	15			3
DIP/Records Management	15		15	2
Electoral Registration	15			3
Equalities		10		3
Insurance	10		15	2
Newhaven Business Centre		15		2
Partnerships		15		2
Project Management		15		2
Records Management Legal Compliance			15	3
Telephones		15		2
	90	85	80	
Departmental Systems				
Building Control	20		20	2
Cemeteries	20		20	2
Clean and Green Team		20		2
Coastal Protection			10	3
Environmental Health - Health		20		2
Estates Management	20		20	2
Homelessness and Housing Strategy		20		2
Housing Management		15		2
Housing Repairs	20		20	2

Members Allowances & Civic Expenses		15		3
Personnel, Recruitment and Training	15			3
Planning and Development Control		30		2
Pollution Control	20		20	2
Private Sector Housing	20		20	2
Tourism and Economic Development	20		20	2
Waste & Recycling Services		30		2
	155	150	150	
Performance & Management Review				
Review - Annual Governance Statement	1	1	1	
Review - Emerging Risks	5	5	5	
Review - Performance Management / Data Quality	3	3	3	
Review - Programme Nexus	20	20	20	
Review - Risk Management/Corporate Governance	10	10	10	
VFM - Budget - DO NOT USE	35	35	35	
	74	74	74	
Computer Audit				
Change Control		15		2
Computer Software			10	3
Implementation of New Systems	25	25	25	2
Internet/Intranet		15		2
IT Security and Networks	30		30	2
IT Managed Audit	5	5	5	2
	60	60	70	
Environmental Audit				
EMAS - Bio-diversity			10	3
EMAS - Environmental Statement	2	2	2	1
EMAS - Management, co-ordination and review	10			3
EMAS - Pollution: Prevention and Control	10			3
EMAS - Procurement			10	3
EMAS - Review of compliance with environmental legislation	10	3	3	1
EMAS - Sustainable Development		10		3
EMAS - Transport		10		3
EMAS - Verification LRQA	1	1	1	1
EMAS - Waste and Recycling			10	3
EMAS - Water & Energy Usage		10		
	33	36	36	
Management Responsibilities				
Attendance at groups	3	3	3	
Audit Committee	15	15	15	
Audit Planning	10	10	10	
Data Matching	5	5	5	
Financial Vetting	3	3	3	
Follow Up	5	5	5	
Liaison with External Audit	3	3	3	

Tendering Arrangements	20	20	20
	64	64	64
Unplanned Audits / Investigations			
Unplanned Audits / Investigations Provision	53	54	43
	53	54	43
Internal Audit Total	774	768	762

Notes:

The Frequency Indicator shows the frequency with which audits should be carried out as identified by the risk analysis:

- 1 Every year
- 2 Every other year
- 3 No more than once every three years

Appendix 3

LOW RISK ACTIVITIES EXCLUDED FROM THE STRATEGIC AUDIT PLAN 2013/16

The Low risk activities excluded from the Strategic Audit Plan are:

Car Loans (Audited 2003/2004)
Land Charges (Audited 2012/13)
Licensing (Audited 2012/13)
Public Halls (Audited 1997/1998)
Right to Buy (Audited 2003/2004)
Service Charges (Audited 2004/05)
VAT (Audited 2003/04)

Notes

A full risk assessment has been carried out for all items in the audit universe, and this has informed the decisions for the activities listed above.