

**Agenda Item No:** 7 **Report No:** 48/14

**Report Title:** Strategic Audit Plan

**Report To:** Audit and Standards Committee **Date:** 17 March 2014

**Ward(s) Affected:** All

**Report By:** Head of Audit and Performance

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**Purpose of Report:**

To present to Councillors the Strategic Audit Plan for the three year period 2014/15 to 2016/17.

**Officers Recommendation(s):**

- 1 To agree the Annual Audit Plan for 2014/15 (as shown at Appendix 1)
- 2 To agree the three year Strategic Audit Plan for 2014/15 to 2016/17 (as shown at Appendix 2).
- 3 To note that the Annual Audit Plan and Strategic Audit Plan reflect the ongoing restructuring of the Council (see Section 6) and the reduced staffing within the Internal Audit team (see Section 8).

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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, 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 have applied since 1 April 2013.

- 1.2** The 2013 PSIAS require 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 and the audit plan are combined into a Strategic Audit Plan that is presented to the Audit and Standards Committee for approval.
- 1.3** The main focus of the planning process is on the first year of the Strategic Audit Plan, which provides the Annual Audit Plan for 2014/15. 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 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.

**3.3** 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).

**3.4** 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, BDO.

#### **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, 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 BDO.
- 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 and provide a quality assurance role for Nexus projects on request.
- 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** The list of assumptions above no longer includes the audit of EMAS (see 6.7). Similarly, the strategic planning assumptions no longer include provision for Value for Money (VFM) audits as none has been necessary since the last one was completed in 2010/11, and the Council tests VFM in specific best value/benchmarking exercises. If Internal Audit is asked to carry out VFM work the resources will be taken from the contingency for unplanned work. Internal Audit will consider VFM issues if they arise during routine audit work.

## **5 Relationship with BDO**

- 5.1** BDO 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 2014/17 reflects this integrated approach, and includes provision for the resources necessary to manage the relationship with BDO.
- 5.2** Up to and including the Managed Audit of 2012/13, Internal Audit carried out the testing of key financial systems in close liaison with BDO. Revised external audit standards prevent the exercise being managed in this way in future. For the Managed Audit of 2013/14 (currently underway) and thereafter Internal Audit will determine the scope and content of the work on the key financial systems that will be required to obtain the necessary assurance for the purposes of the Annual Governance Statement (AGS). Through negotiation, Internal Audit will ensure that the BDO requirements for information on the adequacy of controls will continue to be met.
- 5.3** During 2013/14, Internal Audit has worked with BDO in carrying out testing of the Benefits and NDR subsidy grant claims for the previous year of account, and the 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.

## **Preparation of the Annual Audit Plan and Strategic Audit Plan**

### **6 Review of Key Council Activities**

- 6.1** This review is based on information from the Budget Book, the Council Plan, the Council's Risk Register, the Council's Assurance Framework, Council Service Plans, Cabinet reports and other known developments, and BDO's Audit Plans. The following issues are highlighted.

#### **Council Restructuring**

- 6.2** At its meeting in June 2013, Cabinet considered the future organisational structure of the Council. In the face of the many drivers for change at both the national and local level, Cabinet decided that the Council should move to a customer focus model. Three new Directorates have been established to provide dedicated areas for business strategy, service delivery and corporate support, and the initial steps have been taken to define the structure of the organisation below Director level.
- 6.3** The structure of the Service Delivery Directorate will include a customer service centre and a framework of multifunctional teams. A new subject of Customer Services has been included in the universe of potential audits to enable appropriate

audit coverage of this area to be developed. The Council functions that fall within the other two Directorates are assumed to be largely as at present, and no new subjects have been added to the universe of audits.

- 6.4** Internal Audit will review the Audit Plan for 2014/15 after six months to assess whether any significant changes are necessary in response to the ongoing restructuring of the Council. A report on the results of the review will be presented to the September 2014 meeting of the Committee.

### **Key Financial Systems**

- 6.5** Internal Audit undertakes the review and testing of the key financial systems every year to provide assurance for the Annual Governance Statement (AGS). The work for the 2013/14 exercise is underway, and includes the Fixed Asset and Council Tax Reduction Scheme systems for the first time - it is assumed that these subjects will be included in the review of key financial systems for the period of the Strategic Audit Plan 2014/17.
- 6.6** 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.

### **Environmental Management**

- 6.7** A decision has been taken on the future of EMAS at the Council. The Council will not be submitting a request for accreditation to ISO14001 or a request for verification to EMAS in 2014. The intention is to continue with some form of corporate environmental management system, but the Council will no longer be badged, verified or accredited as before. Decisions on the makeup of the new management system and how it will be operated will be made as part of the current exercise to restructure the Council. Accordingly, Environmental Management is included in the universe of potential audits but no specific audit has been scheduled for the period of this Strategic Plan.

### **Computer Audit**

- 6.8** 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 heading also provides contingency for unforeseen work specifically on IT issues.
  - The testing of key IT controls as part of the annual work on the key financial systems.

- A combined audit of IT Security and IT Networks. A risk assessment and gap analysis indicated that the separate audit of IT Networks is no longer necessary.

## **General**

- 6.9** The Strategic Plan includes a contingency for unforeseen work on non IT issues (Unplanned Work) that enables Internal Audit to be flexible and to adapt its coverage to address changing priorities.
- 6.10** Internal Audit staff, working as auditors, regularly support the Council's procurement processes. This work is accounted for under Procurement Advice within Management Responsibilities. Similarly, Internal Audit staff regularly work in an audit or quality assurance capacity on projects that form part of the NEXUS programme. This work is accounted for under Performance and Management Review.
- 6.11** 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.
- 6.12** Following the Internal Audit review of Health and Safety during 2013 this subject has been added to the universe of potential audits. The subject of Safeguarding has also been included to ensure appropriate coverage of this new, priority area.
- 6.13** There has been consultation with service managers on the content of the Audit Plan for 2014/15. This consultation has identified some operational and development issues that have influenced the placement of the audits in the three year cycle, and the scheduling of the individual audits in the year. The consultation process has also included discussion of specific risk management issues that will influence the focus of audits in the Audit Plan for 2014/15.

## **7 Application of the Risk Assessment Model**

- 7.1** 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. A new category has been added to reflect where departments have raised specific concerns, about business continuity or other significant risks, in their service plans. 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
- 7.2** For every Strategic Plan there is an assessment of those very low risk activities that can be left out of the programme of audits (see Appendix 3). For the Strategic Plan

2014/17, this assessment has needed to be more challenging because of the reduced resources of the Internal Audit team (see Section 8) and the need to focus available resources on current priority issues. This means that the list of audits left out of the programme is longer than in previous plans. These activities remain part of the database of potential audits and will be reassessed as part of next year's Strategic Audit Plan.

- 7.3** Some activities occur every year and are not subject to the Strategic Plan's risk assessment process. These include the work on risk management, corporate governance, and Programme Nexus that are included at Performance and Management Review. There are also ongoing Management Responsibilities such as the support to the Audit and Standards Committee, Follow Up and Liaison with External Audit.
- 7.4** 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 2014/15 at Appendix 1 shows the assignments categorised as High, Medium or Low priority.

## **8 Allocation of Staff Resources**

- 8.1** In February 2000, the Council approved the staffing of Internal Audit at 3.8 FTE. Internal Audit was staffed at this level until February 2014, when a team member took the opportunity offered by the Voluntary Severance Scheme to leave the Council. The team member worked on a part time basis (0.6 FTE) and the staffing of Internal Audit is now set at 3.2 FTE. The reduced staff resources are reflected in a reassessment of the days available for audit, which are fewer than in previous years.
- 8.2** Internal Audit forms part of the Audit and Performance Division that is responsible for a range of activities related to corporate governance, procurement 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. When Internal Audit examines one of these other activities as part of the Annual Audit Plan, this work is done entirely independently of the Head of Audit Performance who has no role in the audit other than as a client.
- 8.3** Table 1 below summaries the resources allocated to the main audit areas after making provision for administration, training, leave and sickness. The column for 2013/14 is the Annual Audit Plan as agreed in March 2013, which is included at the request of the Audit and Standards Committee.

**Table 1: Summary of staff resources for 2014/15 to 2016/17**

<b>2013/14</b>	<b>Audit Area</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Plan Audit Days		Plan Audit Days	Plan Audit Days	Plan Audit Days
245	Main Systems	285	285	285
90	Central Systems	65	65	65
155	Departmental Systems	100	100	100
74	Performance and Management Scrutiny	40	40	40
60	Computer Audit	65	55	65
33	Environmental Audit	0	0	0
117	Management Responsibilities/Unplanned Audits	98	105	105
<b>774</b>	<b>Total</b>	<b>653</b>	<b>650</b>	<b>660</b>

**8.4** The extra days available in 2016/17 are largely due to there being no Easter bank holidays within the year, with the Easter holidays falling in March 2016 and April 2017.

## **9 Financial Appraisal**

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

## **10 Sustainability Implications**

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

## **11 Risk Management Implications**

**11.1** I have completed a risk assessment in accordance with the Council's Risk Management methodology. The following risks and mitigating factors have been identified.

**11.2** 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.

## **12 Legal Implications**

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

### **13 Equality Screening**

**13.1** 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.

### **14 Background Papers**

None.

### **15 Appendices**

Appendix 1 Annual Audit Plan 2014/15

Appendix 2 Strategic Audit Plan 2014/17

Appendix 3 Low risk areas excluded from the Strategic Audit Plan 2014/17

## Appendix 1

### LEWES DISTRICT COUNCIL: ANNUAL AUDIT PLAN

<b>Audit Area</b>	<b>2014/ 2015 Days</b>	<b>Priority</b>
<b>Key Financial Systems</b>		
Cash and Bank	10	HIGH
Council Tax	5	HIGH
Council Tax Reduction Scheme	10	HIGH
Expenditure and Creditors	15	HIGH
Fixed Assets	10	HIGH
Grant Claims	160	HIGH
Housing Benefit	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
NDR	5	HIGH
Payroll and Employment Costs	10	HIGH
	<b>285</b>	
<b>Central Systems</b>		
Building Maintenance	20	MEDIUM
Business Continuity Planning	15	MEDIUM
Health and Safety	15	MEDIUM
Safeguarding	15	MEDIUM
	<b>65</b>	
<b>Departmental Systems</b>		
Building Control	20	MEDIUM
Estates Management	15	LOW
Housing Management	20	MEDIUM
Housing Repairs	20	MEDIUM
Waste & Recycling Services	25	MEDIUM
	<b>100</b>	
<b>Performance &amp; Management Review</b>		
Review - Programme Nexus	25	MEDIUM
Review - Risk Management/Corporate Governance	15	MEDIUM
	<b>40</b>	
<b>Computer Audit</b>		
Implementation of New Systems	15	MEDIUM
Internet/Intranet	15	MEDIUM
IT Security and Networks	30	MEDIUM
IT Managed Audit	5	HIGH
	<b>65</b>	

<b>Audit Area</b>	<b>2014/ 2015 Days</b>	<b>Priority</b>
<b>Management Responsibilities</b>		
Audit Committee	15	
Audit Planning	10	
Data Matching	5	
Financial Vetting	2	
Follow Up	5	
Liaison with External Audit	3	
Procurement Advice	15	
	<b>55</b>	
<b>Unplanned Audits / Investigations</b>		
Unplanned Audits / Investigations Provision	43	
	<b>43</b>	
<b>Internal Audit Total</b>	<b>653</b>	

## Appendix 2

### LEWES DISTRICT COUNCIL: THREE YEAR STRATEGIC AUDIT PLAN

<b>Audit Area</b>	<b>2014/ 2015 Days</b>	<b>2015/ 2016 Days</b>	<b>2016/ 2017 Days</b>	<b>Frequency Years</b>
<b>Key Financial Systems</b>				
Cash and Bank	10	10	10	1
Council Tax	5	5	5	1
Council Tax Reduction Scheme	10	10	10	1
Expenditure and Creditors	15	15	15	1
Fixed Assets	10	10	10	1
Grant Claims	160	160	160	1
Housing Benefit	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
NDR	5	5	5	1
Payroll and Employment Costs	10	10	10	1
	<b>285</b>	<b>285</b>	<b>285</b>	
<b>Central Systems</b>				
Building Maintenance	20		20	2
Business Continuity Planning	15		15	2
DIP/Records Management		15		3
Health and Safety	15		15	2
Insurance		10		2
Newhaven Business Centre		15		3
Project Management		10		2
Safeguarding	15		15	2
Telephones		15		3
	<b>65</b>	<b>65</b>	<b>65</b>	
<b>Departmental Systems</b>				
Building Control	20		20	2
Cemeteries		20		3
Customer Services		20		2
Estates Management	15			3
Homelessness and Housing Strategy		20		2
Housing Management	20		20	2
Housing Repairs	20		20	2
Planning and Development Control		20		2
Private Sector Housing		20		3
Tourism and Economic Development			15	3
Waste & Recycling Services	25		25	2
	<b>100</b>	<b>100</b>	<b>100</b>	

<b>Audit Area</b>	<b>2014/ 2015 Days</b>	<b>2015/ 2016 Days</b>	<b>2016/ 2017 Days</b>	<b>Frequency Years</b>
<b>Performance &amp; Management Review</b>				
Review - Programme Nexus	25	25	25	
Review - Risk Management/Corporate Governance	15	15	15	
	<b>40</b>	<b>40</b>	<b>40</b>	
<b>Computer Audit</b>				
Change Control		20		2
Computer Software		15		3
Implementation of New Systems	15	15	15	1
Internet/Intranet	15		15	2
IT Security and Networks	30		30	2
IT Managed Audit	5	5	5	1
	<b>65</b>	<b>55</b>	<b>65</b>	
<b>Management Responsibilities</b>				
Audit Committee	15	15	15	
Audit Planning	10	10	10	
Data Matching	5	5	5	
Financial Vetting	2	2	2	
Follow Up	5	5	5	
Liaison with External Audit	3	3	3	
Procurement Advice	15	15	15	
	<b>55</b>	<b>55</b>	<b>55</b>	
<b>Unplanned Audits / Investigations</b>				
Unplanned Audits / Investigations Provision	43	50	50	
	<b>43</b>	<b>50</b>	<b>50</b>	
<b>Internal Audit Total</b>	<b>653</b>	<b>650</b>	<b>660</b>	

### 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 2014/17**

The activities excluded from the Strategic Audit Plan 2014/17 are:

Car Loans (Audited 2003/4)  
Clean and Green Team (Audited 2010/11)  
Coastal Protection (Audited 2004/05)  
Communications (Audited 2013/14)  
Electoral Registration and Elections (Audited 2013/14)  
Environmental Health- Health (Audited 2012/13)  
Environmental Management (Audited as EMAS 2013/14)  
Equalities (Audited 2011/12)  
Land Charges (Audited 2012/13)  
Licensing (Audited 2012/13)  
Members Allowances and Expenses (Audited 2010/11)  
Partnerships (Audited 2012/13)  
Personnel, Recruitment and Training (Audited 2000/01)  
Pollution Control (Audited 2011/12)  
Records Management Legal Compliance (Audited 2010/11)  
Right to Buy (Audited 2003/04)  
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.

The Council no longer manages public halls, and the subject has been removed from the universe of potential audits.