

Agenda Item No: **Report No: 48/16**

Report Title: **Annual Audit Plan 2016/17**

Report To: **Audit and Standards Committee** **Date: 14 March 2016**

Ward(s) Affected: **All**

Report By: **Head of Audit, Fraud and Procurement**

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Purpose of Report:

To present to Councillors the Annual Audit Plan for 2016/17.

Officers Recommendation(s):

- 1 To agree the Annual Audit Plan for 2016/17 (as shown at Appendix 1)
- 2 To note the change from the previous approach that included a three year Strategic Audit Plan – this change recognises the specific circumstances arising from the Joint Transformation Programme (JTP), via which Lewes District Council (LDC) will integrate its staff and services with Eastbourne Borough Council (EBC) (as shown at Section 2).

Reasons for Recommendations

The remit of the Audit and Standards 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, Fraud and Procurement (HAFP) 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.
- 1.3 As previously, the main focus of the planning process is on the first year of the Strategic Audit Plan, which provides the Annual Audit Plan for 2016/17. HAFP is proposing a specific change to the normal planning process in which only the Annual Audit Plan for 2016/17 is presented to the Committee for approval – the reasons for this proposal are given at Section 2 below.

2 Impact of the Joint Transformation Programme (JTP)

- 2.1 The strategic statement and the audit plan are normally combined into a three year Strategic Audit Plan that is presented to the Audit and Standards Committee for approval. HAFP is proposing a specific change to the normal planning process to recognise the impact of the JTP.
- 2.2 LDC and EBC have agreed to a Joint Transformation Programme (JTP) which will create a more flexible, customer focussed and cost effective way of delivering services by integrating both councils to form a single team. A number of services (eg Human Resources, Legal Services, Properties and Facilities (Corporate Landlord Service)) have already integrated, or are in the process of integration, to deliver shared services. Other LDC teams are at an early stage in the move towards integration but are expected to make significant progress during 2016/17.
- 2.3 The changes that will be come about as integration moves forward are likely to be such that Internal Audit is not be able to prepare a meaningful programme of audits for the second and third years of the Strategic Audit Plan. Accordingly, HAFP is recommending a change from previous practice and is presenting only the Annual Audit Plan for 2016/17 to the Audit and Standards Committee.
- 2.4 As part of the overall integration process, HAFP is working towards a shared service for Audit and Fraud at LDC and EBC. It is anticipated that, by March 2017, there will have been significant progress towards full integration and it is possible that the Annual Audit Plan for 2017/18 will be a joint plan with EBC.

3 Purpose and Objectives

- 3.1 In order to comply with the 2013 PSIAS the Annual 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.

4 Aims and Objectives for Internal Audit

4.1 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 and disciplined approach to evaluating the effectiveness of risk management, control and governance processes.

4.2 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.
- To provide an efficient and effective Investigations Team that supports the Council's 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.

4.3 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).

4.4 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.

5 Planning Assumptions

5.1 In preparing the Annual Audit Plan, HAFP has taken account of the adequacy and outcomes of the Council's risk management, corporate governance and other

assurance processes. The Annual 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 Housing Benefits subsidy grant claim 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 the Council's Transformation Project and provide a quality assurance role for individual 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, 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 investigations or reviews.
- Carry out a programme of planned and responsive work to investigate suspected cases of fraud across all Council services and activities (except Housing Benefits).

6 Relationship with BDO

6.1 The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The Council's external auditors, 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 Annual Audit Plan reflects this integrated approach, and includes provision for the resources necessary to manage the relationship with BDO.

6.2 Since 2013/14 Internal Audit has decided 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 AGS. This arrangement will continue and, through negotiation, Internal Audit will ensure that the BDO requirements for information on the adequacy of controls will continue to be met.

6.3 During 2015/16, Internal Audit has worked with BDO in carrying out testing of the Housing Benefits subsidy grant claim for the previous year of account, with the increased levels of testing requiring 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.

7 Other sources of assurance

7.1 The Council operates a management assurance system, which enables senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they are responsible. This system is a key part of the Council's governance framework, which is reviewed annually by the HAFFP. The results of this review and the outputs from the management assurance system are reported in the AGS. Any Internal Audit work on these areas is accounted for under Performance and Management Review.

Preparation of the Annual Audit Plan

8 Review of Key Council Activities

8.1 This review is based on information from 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 Transformation

8.2 As noted in Section 2, the Council is undergoing a significant transformation. Any Internal Audit work arising from transformation projects, community initiatives or linked policy commitments will be accounted for under Council Transformation within Performance and Management Review.

8.3 Internal Audit will review the Annual Plan for 2016/17 after nine 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 January 2017 meeting of the Committee.

Key Financial Systems

8.4 Internal Audit undertakes the review and testing of the key financial systems every year to provide assurance for the AGS. The work for the 2015/16 exercise is underway. 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.

Computer Audit

8.5 The Computer Audit coverage includes provision for:

- 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 was no longer necessary.

General

8.6 The Annual Plan includes a contingency for unforeseen work (Unplanned Work) that enables Internal Audit to be flexible and to adapt its coverage to address changing priorities.

8.7 The Annual Plan includes two studies to be conducted jointly with EBC. One study is an examination of the two councils' response to the Government's national security strategy to counter terrorism. The other is a review of each council's relationship with its respective leisure trust.

8.8 There has been consultation with CMT on the content of the Annual Plan for 2016/17.

9 Application of the Risk Assessment Model

9.1 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 all activities 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

9.2 This assessment process has been applied for the current exercise, but only the audits allocated to the audit programme for 2016/17 are shown. Some activities occur every year and are not subject to the risk assessment process. These include the work on risk management, corporate governance, and the transformation programme 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.

- 9.3** The assignments within the Annual Audit Plan are prioritised, and this forms the basis for the scheduling of audit work. The Annual Audit Plan for 2016/17 (at Appendix 1) shows the assignments categorised as High, Medium or Low priority.

10 Investigations Team

- 10.1** From 1 November 2014, the Investigations Team has been part of Internal Audit within the Audit, Fraud and Procurement Division. The work of the team is planned in accordance with a programme of development and case management priorities.

- 10.2** The initial priority was to develop the understanding of tenancy fraud, build the necessary working relations with Housing Managers, and research best practice in countering tenancy fraud. The next development priority will be to undertake the same learning, research and relationship building for NDR. Thereafter, the team will develop its expertise in other areas of counter fraud activity based on risk assessments.

- 10.3** Alongside this development work the Investigations Team will investigate reported cases of suspected fraud, initially concentrating on Council Tax Reduction fraud and tenancy fraud, and then moving onto the detection and investigation of suspected NDR fraud. There also remains a commitment - reinforced by a formal SLA - for the LDC Investigations Team to support the DWP's Single Fraud Investigation Service (SFIS) in the handling of cases of Housing Benefit fraud. Preparations are being made to share this work with the Investigations Team at EBC to make best use of resources.

11 Allocation of Staff Resources

Internal Audit

- 11.1** The current level of staffing (3.1FTE) has been assumed for the Annual Audit Plan 2016/17. This staffing reflects the changes that took place on 1 January 2016 when the Principal Audit Manager (PAM) began taking flexible retirement - the full year effect is a reduction in planned audit time of approximately 80 days. To partly offset this reduction, the Internal Audit Manager at Eastbourne BC has agreed to work for the Council for the equivalent of one day per week, with the time spent on specific audit projects.

- 11.2** Internal Audit forms part of the Audit, Fraud and Procurement Division that is responsible for a range of activities related to corporate governance, risk management and procurement. The Annual Audit Plan includes a 75/25 apportionment of the time of HAFP between these other activities and internal audit

work. When Internal Audit examines one of these other activities, this work is done entirely independently of HAFP who has no role in the audit other than as a client.

Investigations Team

11.3 The current level of staffing (1.4 FTE) has been assumed for the Annual Audit Plan 2016/17.

Summary

11.4 The outline plan of Internal Audit assignments and the main areas of work for the Investigations Team are given at Appendix 1. The resources assigned to these tasks are after making provision for administration, training, leave and sickness.

12 Financial Appraisal

12.1 There are no additional financial implications arising from this report.

13 Sustainability Implications

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

14 Risk Management Implications

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

14.2 If the Council cannot demonstrate an effective Internal Audit function it will not meet its statutory obligations. The Annual Audit 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.

15 Legal Implications

15.1 There are no legal implications arising from this report.

16 Equality Screening

16.1 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.

17 Background Papers

None.

18 Appendices

Appendix 1 Annual Audit Plan 2016/17

Appendix 1

LEWES DISTRICT COUNCIL: ANNUAL AUDIT PLAN 2016/17

Audit Area	2016/ 2017 Days	Priority
Key Financial Systems		
Cash and Bank	10	HIGH
Council Tax	10	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	10	HIGH
Investments and Investment Income	10	HIGH
Main Accounting System	10	HIGH
Managed Audit	5	HIGH
NNDR	10	HIGH
Payroll and Employment Costs	10	HIGH
	290	
Central Systems		
Business Continuity Planning	20	MEDIUM
Ethics	10	HIGH
Newhaven Business Centre	15	LOW
Prevent and Protect (Joint review with EBC)	5	HIGH
Leisure Trusts (Joint review with EBC)	20	MEDIUM
	70	
Departmental Systems		
Cemeteries	15	LOW
Estates Management	20	MEDIUM
Members Allowances & Civic Expenses	15	LOW
Private Sector Housing	20	LOW
	70	
Performance & Management Review		
Review - Council Transformation	25	
Review - Risk Management/Corporate Governance	20	
	45	
Computer Audit		
Disaster Recovery	20	MEDIUM
IT Security and Networks	20	MEDIUM
IT Managed Audit	5	HIGH
	45	

Audit Area	2016/ 2017 Days	Priority
Management Responsibilities		
Audit and Standards Committee	15	
Audit Planning	10	
Data Matching	5	
Financial Vetting	2	
Follow Up	5	
ESFOG/Hub/Sussex Audit Group	5	
Fraud Team Planning and Review	10	
Liaison with External Audit	4	
	56	
Unplanned Audits / Investigations		
Unplanned Audits / Investigations	60	
	60	
Internal Audit Total	636	
Investigations Team		
Council Tax Reduction Scheme Fraud	40	
Data Matching/Other Fraud	10	
Housing Benefit Fraud	20	
NDR Fraud	120	
Procurement Fraud	5	
Tenancy Fraud	93	
Fraud Management Responsibilities	20	
Investigations Team Total	308	
Internal Audit and Investigations Team Total	944	

Notes

The Internal Audit assignments within the Annual Audit Plan are prioritised on the basis of risk assessments, and this informs the scheduling of audit work. Management Responsibilities and Performance and Management Review have no priorities assigned to the tasks, which take place every year.