

Agenda Item No: 8

Report No: 60/17

Report Title: Annual Audit Plan 2017/18

Report To: Audit and Standards Committee Date: 20 March 2017

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 2017/18.

Officers Recommendation(s):

- 1** To agree the Annual Audit Plan for 2017/18 (as shown at Appendix 1)
- 2** To note that the plan 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 were issued in April 2013 and updated in April 2016.
- 1.2** The PSIAS require the Head of Audit, Fraud and Procurement (HAFFP) 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** LDC and EBC have agreed to a Joint Transformation Programme (JTP). A number of services 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 2017/18.
- 2.2** 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. The changes that are being made 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.
- 2.3** HAFP is therefore proposing that only the Annual Audit Plan for 2017/18 is presented to the Audit and Standards Committee. The draft Annual Audit Plan for 2017/18 is given at Appendix 1.
- 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 April 2017, there will have been significant progress towards full integration, and the Annual Audit Plan includes a number of joint audits and other shared work. It is intended that the Annual Audit Plan for 2018/19 will be a joint plan with EBC.

3 Aims and Objectives for Internal Audit and Fraud

- 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 and disciplined approach to evaluating the effectiveness of risk management, control and governance processes. The PSIAS 2016 introduced a Mission Statement for Internal Audit as follows

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

- 3.2** The Core Principles for the Professional Practice of Internal Auditing, which were introduced as part of the updated PSIAS in April 2016, have been incorporated into the Charter for Internal Audit but do not affect the service objectives or the processes that support this plan.
- 3.3** The Internal Audit and Fraud service for 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 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.

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).

4 Planning Assumptions

4.1 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 the Internal Audit and 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 (HB) 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 prevent, detect and investigate fraud across all Council services and activities (except Housing Benefits).

5 Relationship with BDO

- 5.1** 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 includes provision for the resources necessary to manage the relationship with BDO.
- 5.2** Internal Audit decides 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 in 2017/18 and, 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 2017/18 Internal Audit will work with BDO in carrying out testing of the Housing Benefits subsidy grant claim for the previous year of account, and it is forecast that the transaction testing will again require significant Internal Audit resources. So 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.

6 Other sources of assurance

- 6.1** 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 HAFP. The results of this review and the outputs from the management assurance system are reported in the AGS. Any Internal Audit work in these areas is accounted for under Performance and Management Review.

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, and BDO's Audit Plans. The following issues are highlighted.

Council Transformation

- 7.2** 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.

- 7.3** HAFP works as part of the assurance panel that monitors the Joint Transformation Programme (JTP) covering both authorities. The time spent on this work will be accounted for within Performance and Management Review.
- 7.4** Internal Audit will review the Annual Plan for 2017/18 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 2018 meeting of the Committee.

Key Financial Systems

- 7.5** Internal Audit undertakes the review and testing of the key financial systems every year to provide assurance for the AGS. The work for the 2016/17 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.
- 7.6** This work includes the testing of the key IT controls that form part of the key financial systems. The work on the IT controls is planned as part of the separate Computer Audit coverage.

Joint work with Audit and Fraud at EBC

- 7.7** The Annual Plan includes a number of joint audits to be carried out at both authorities by Internal Audit staff at EBC and LDC working together. These audits are:
- Regulation of Investigatory Powers Act (RIPA)
 - Safeguarding
 - IT Change Control
 - IT Service Contract with Sopra Steria
 - Joint Ventures and Council owned companies
 - Contract Management and Monitoring
- 7.8** These joint audits will be led by HAFP, the Principal Audit Manager at LDC or the Audit Manager at EBC, with staffing support from either authority as appropriate. The Annual Plan at Appendix 1 shows the time allocated to the joint audits by Internal Audit at LDC, but the audits will cover both authorities equally.
- 7.9** Audits in the Annual Plan that are being carried out by LDC Internal Audit staff may examine services that are already merged (eg HR - Training) or which become merged during the year depending on the progress of the JTP.
- 7.10** The Principal Audit Manager at LDC works closely with the Fraud Manager at EBC to support the working of the East Sussex Counter Fraud Hub (see Section 9). The resources required for this work at LDC are accounted for under Management Responsibilities.

7.11 Since mid – August 2016, the major part of the LDC work to ensure effective liaison with the Single Fraud Investigation Service (SFIS) at the Department of Work and Pensions (DWP) has been carried out by a member of the Investigations Team at EBC. The intention is for this arrangement to continue in 2017/18, and only a small provision for this work is shown at Appendix 1.

General

7.12 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.

7.13 There has been consultation with CMT on the content of the Annual Plan for 2017/18.

8 Application of the Risk Assessment Model

8.1 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

8.2 This assessment process has been applied for the current exercise, but only the audits allocated to the audit programme for 2017/18 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 Council Transformation that are shown under Performance and Management Review. There are also ongoing Management Responsibilities such as the support to the Audit and Standards Committee, Data Matching and Liaison with External Audit that take place every year.

8.3 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 2017/18 (at Appendix 1) shows the assignments categorised as High, Medium or Low priority.

9 Investigations Team

9.1 From 1 November 2014, the Investigations Team has been linked with Internal Audit within the Audit, Fraud and Procurement Division. The work of the team is planned in accordance with development and case management priorities.

- 9.2** The initial priority was to develop a methodology for dealing with housing tenancy abandonment and the different types of tenancy fraud. During 2016/17, the Investigation Team introduced a new regime of checks on Right to Buy (RTB) applications to prevent and detect fraud, and protect the Council against money laundering. The next development priority for the team will be business rates (NDR). Thereafter, the team will develop its expertise in other areas of counter fraud activity based on risk assessments.
- 9.3** Alongside the development work the Investigations Team will continue to investigate reported cases of suspected fraud, initially concentrating on tenancy and RTB fraud, and then moving onto the detection and investigation of suspected NDR fraud. The resources required to manage the Investigations Team are shown as Fraud Team Planning and Review under Management Responsibilities.
- 9.4** 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. The resources required to carry out this support role are shown as Housing Benefit Fraud.
- 9.5** A group of seven neighbouring authorities are working together in the East Sussex Counter Fraud Hub to coordinate counter fraud initiatives across East Sussex and Brighton. The Hub has funded an ongoing programme of training and the implementation of shared systems to help in managing joint activities.

10 Allocation of Staff Resources

Internal Audit

- 10.1** The current level of staffing (3.1FTE) has been assumed for the Annual Audit Plan 2017/18. The Annual Audit Plan includes a 60/40 apportionment of the time of HAFP between internal audit work and other activities such as corporate governance and risk management. This additional HAFP time for internal audit work will make good the time lost as a result of other staff changes.

Investigations Team

- 10.2** The current level of staffing (1.5 FTE) has been assumed for the Annual Audit Plan 2017/18.

Summary

- 10.3** 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.

11 Financial Appraisal

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

12 Sustainability Implications

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

13 Risk Management Implications

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

13.2 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.

14 Legal Implications

14.1 There are no legal implications arising from this report.

15 Equality Screening

15.1 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.

16 Background Papers

None.

17 Appendices

Appendix 1 - Annual Audit Plan 2017/18

Appendix 2 - Table of abbreviations

Appendix 1

LEWES DISTRICT COUNCIL: ANNUAL AUDIT PLAN 2017/18

Audit Area	2017/ 2018 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	10	HIGH
NNDR	10	HIGH
Payroll and Employment Costs	10	HIGH
	295	
Central Systems		
Contract management and monitoring (Note A)	5	MEDIUM
Ethics	10	HIGH
Joint ventures and Council owned companies (Note A)	20	HIGH
Legal Services (Note C)	20	MEDIUM
RIPA (Note A)	8	HIGH
Safeguarding (Note A)	2	HIGH
	65	
Departmental Systems		
Housing Needs	20	MEDIUM
Licensing	15	MEDIUM
Members Allowances & Civic Expenses	15	LOW
Training	15	MEDIUM
	65	
Performance & Management Review		
Review - Council Transformation	10	
Review - Risk Management/Corporate Governance	20	
Review – JTP Assurance Panel	15	
	45	
Computer Audit		
IT Change Control	Note B	MEDIUM
IT Service Contract with Sopra Steria	Note B	MEDIUM
IT Managed Audit	5	HIGH
	5	

Audit Area	2017/ 2018 Days	Priority
Management Responsibilities		
Audit and Standards Committee	15	
Audit Planning	10	
Data Matching	20	
Financial Vetting	2	
Follow Up	5	
ESFOG/Hub/Sussex Audit Group	20	
Fraud Team Planning and Review	15	
Liaison with External Audit	3	
	90	
Unplanned Audits / Investigations		
Unplanned Audits / Investigations	57	
	57	
Internal Audit Total	622	
Investigations Team		
Council Tax Reduction Scheme Fraud	20	MEDIUM
Data Matching/Other Fraud	20	MEDIUM
Housing Benefit Fraud	5	LOW
NDR Fraud	114	HIGH
Procurement Fraud	5	LOW
Tenancy Fraud	115	HIGH
Fraud Management Responsibilities	20	MEDIUM
Investigations Team Total	299	
Internal Audit and Investigations Team Total	921	

Notes

Note A - The Draft Annual Audit Plan above shows the time allocated to the joint audits by Internal Audit at LDC, but the audits will cover both EBC and LDC equally.

Note B – These audits will cover both EBC and LDC equally, but all resources are being provided by EBC Internal Audit.

Note C - These audits will cover both EBC and LDC equally, but all resources are being provided by LDC Internal Audit.

The tasks shown under Management Responsibilities and Performance and Management Review have no priorities assigned.

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
HAFP – Head of Audit, Fraud and Procurement
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
NFI – National Fraud Initiative
PIs – Performance Indicators
PSIAS – Public Sector Internal Audit Standards
QAIP – Quality Assurance and Improvement Programme
RTB – Right to Buy
SFIS – Single Fraud Investigation Service
WGA – Whole of Government Accounts