

Agenda Item No: 7

Report Title: Annual Audit Plan 2018/19

Report To: Audit and Standards Committee **Date:** 19 March 2018

Ward(s) Affected: All

Report By: Head of Audit and Counter Fraud

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Purpose of Report:

To present to Councillors the Annual Audit Plan for 2018/19.

Officers Recommendation(s):

- 1 To agree the Annual Audit Plan for 2018/19 (as shown at Appendix 1)
- 2 To note that the plan recognises the specific circumstances arising from the Joint Transformation Programme (JTP), as part of which the shared Audit and Counter Fraud service became formally integrated on 1 July 2017 (see 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 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 April 2013. The PSIAS have been updated, with new standards published in March 2017.
- 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** 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 continue to be being made as part of the JTP integration process 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. HACF is therefore proposing that only the Annual Audit Plan for 2018/19 is presented to the Audit and Standards Committee. The draft Annual Audit Plan for 2018/19 is given at Appendix 1.
- 2.3** The formal integration of the Internal Audit and Counter Fraud Teams in both councils took place on 1 July 2017. The Annual Audit Plan 2018/19 includes a number of joint audits and other shared work.

3 Aims and Objectives for Audit and Counter 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.
- 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 Plans.
- To provide efficient and effective Counter Fraud Teams 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 Audit Plan, HACF has taken account of the adequacy and outcomes of the councils' risk management, corporate governance and other assurance processes. The Annual Audit 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 (HB) subsidy grant claim on behalf of BDO.
- Examine the main central and 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 Transformation Project and provide a quality assurance role for individual projects on request.
- 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 consultancy assignments.
- Carry out a programme of planned and responsive work to prevent, detect and investigate fraud across all the councils' services and activities (except Housing Benefits).

4.2 The scope of the Annual Audit Plan is designed to enable HACF 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 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** During 2018/19 Internal Audit will work with BDO until November 2018 in carrying out testing of the Housing Benefits (HB) 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 the HB audits of 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.
- 5.3** 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. The Council opted into the PSAA arrangements, and has recently been consulted on the appointment of the external auditor for the period of five years from 2018/19. PSAA have appointed Deloitte LLP, and the Council has confirmed its acceptance of the appointment, which will start on 1 April 2018. Deloitte LLP will also be the external auditors for EBC.
- 5.4** Internal Audit decides the scope and content of the work on the key financial systems (see 7.5) that will be required to obtain the necessary assurance for the purposes of the AGS. Internal Audit will ensure that the BDO requirements for information on the adequacy of controls for the purposes of the 2017/18 accounts will be met. Thereafter, Internal Audit will ensure the same arrangements will be made with Deloitte's LLP.

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 HACF. 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, major system changes, community initiatives or linked policy commitments will be accounted for under Council Transformation within Performance and Management Review.

7.3 HACF 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 2018/19 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 2019 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 2017/18 exercise is underway. To help in the planning and monitoring of these reviews, 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 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, the payroll function is largely situated in Eastbourne, and the internal audit work on payroll as part of the reviews of Key Financial Systems will be done mainly by the Eastbourne team.

7.7 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 in LDC and EBC Annual Audit Plans

7.8 The LDC Annual Audit Plan includes a number of joint audits to be carried out at both authorities by Internal Audit and Counter Fraud staff. All the audits of Central Systems and most for Departmental Systems (see Appendix 1) will be managed in

this way. Appendix 1 shows the time allocated to the joint audits in the LDC Annual Audit Plan, but the audits will cover both authorities equally.

- 7.9** 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 Counter Fraud Team based at EBC. The intention is for this arrangement to continue in 2018/19, and only a small provision for this work is shown in the LDC Annual Audit Plan at Appendix 1.

General

- 7.10** The Annual Plan includes contingencies for unforeseen work (Unplanned Work) and, Consultancy Reviews that enable Internal Audit to be flexible and to adapt its coverage to address changing priorities.
- 7.11** For consultancy assignments carried out by HACF or any other member of Internal Audit, the follow up of the results are carried out by team members other than those involved in the original work, with oversight by an Audit Manager. 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.
- 7.12** There has been consultation with CMT on the content of the Annual Plan for 2018/19.
- 7.13** The outline plan of Internal Audit assignments and the main areas of work for the Counter Fraud Team are given at Appendix 1. The resources assigned to these tasks are after making provision for administration, training, leave and sickness.

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 2018/19 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, Council Transformation and the JTP Assurance Panel that are shown under Performance and Management Review. There are also ongoing Management Responsibilities such as the support

to the Audit and Standards Committee 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 2018/19 (at Appendix 1) shows the assignments categorised as High, Medium or Low priority.

9 Counter Fraud Team

- 9.1** The work of the team is planned in accordance with development and case management priorities. The initial priority was to develop a methodology for dealing with housing tenancy abandonment and the different types of tenancy fraud. Currently, there is a priority to recognise the changes in the management of social housing at EBC and develop a consistent Counter Fraud approach to tenancy abandonment and subletting at both councils.
- 9.2** 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 approach to RTB fraud is standard across both councils. The next development priority for the team, working with colleagues at Eastbourne, 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.
- 9.4** The resources required to manage the Counter Fraud Team are shown as Fraud Team Planning and Review under Management Responsibilities. The resources required to assist other services to develop improved Fraud Prevention methods are shown as Fraud Prevention under the Counter Fraud Team.
- 9.5** 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 (see also 7.9).

10 Allocation of Staff Resources

- 10.1** The current level of staffing for Internal Audit (3.6FTE) has been assumed for the Annual Audit Plan 2018/19. The Annual Audit Plan includes a 75/25 apportionment of the time of HACF between internal audit work and other activities such as corporate governance and risk management. When Internal Audit examines one of these other activities, this work is done entirely independently of HACF who has no role in the audit other than as a client. The current level of staffing for Counter Fraud (1.6 FTE) has been assumed for the Annual Audit Plan 2018/19.

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 2018/19

Appendix 2 - Table of abbreviations

Appendix 1

LEWES DISTRICT COUNCIL: ANNUAL AUDIT PLAN 2018/19

Audit Area	2018/ 2019 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	180	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	3	HIGH
	308	
Central Systems		
Business Continuity Planning (BCP) (Note C)	25	MEDIUM
Ethics (Note A)	5	HIGH
Legal Services (Note C)	25	MEDIUM
Records Management/ Retention of documents (Note C)	10	MEDIUM
	65	
Departmental Systems		
Arrears Collection (Note A)	10	MEDIUM
Customer Services (Note A)	10	MEDIUM
Estates Management (Note A)	10	MEDIUM
HMO Licensing (Note B)	2	MEDIUM
Licensing (other than HMOs) (Note C)	20	MEDIUM
Members Allowances & Civic Expenses	15	LOW
Repairs and Maintenance of Housing (Note C)	20	MEDIUM
	87	
Performance & Management Review		
Review - Council Transformation	10	
Review - Risk Management/Corporate Governance	15	
Review – JTP Assurance Panel	5	
	30	
Computer Audit		
IT Cyber Security (Note C)	20	HIGH
IT Managed Audit	5	HIGH
	25	

Audit Area	2018/ 2019 Days	Priority
Management Responsibilities		
Audit and Standards Committee	15	
Audit Planning	10	
Data Matching	20	
Follow Up	10	
ESFOG/Hub/Sussex Audit Group	15	
Fraud Team Planning and Review	15	
Liaison with External Audit	3	
New Audit System Implementation	20	
	108	
Unplanned Audits / Investigations/Consultancy Reviews		
Consultancy Reviews (Note D)	25	
Unplanned Audits / Investigations	25	
	50	
Internal Audit Total	673	
Investigations Team		
Council Tax Reduction Scheme Fraud	5	MEDIUM
Data Matching	20	MEDIUM
Housing Benefit Fraud	5	LOW
NDR Fraud	60	HIGH
Payroll and other fraud	10	LOW
Tenancy Fraud (RTB, subletting and abandonment)	200	HIGH
Fraud Prevention	23	MEDIUM
Investigations Team Total	323	
Internal Audit and Counter Fraud Total	996	

Notes

Note A - These audits will cover both EBC and LDC equally. The resources shown in the LDC Annual Audit Plan will be the same as those shown in the EBC Annual Audit Plan (e.g. 10 days for LDC and 10 days for EBC with the total days for the audit being 20 days).

Note B – These audits will cover both EBC and LDC equally, but resources are being provided mainly in the EBC Annual Audit Plan.

Note C - These audits will cover both EBC and LDC equally, but resources are being provided mainly in the LDC Annual Audit Plan.

Note D – CMT have asked that this be earmarked for a potential review of the Integration of Waste Services.

The tasks shown under Management Responsibilities, Performance and Management Review, and Unplanned Audits/Investigations/Consultancy Reviews 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
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