

**BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL**

<b>TO: Joint Audit and Standards Committee</b>	<b>REPORT NUMBER: JAC/18/20</b>
<b>FROM: Corporate Manager – Internal Audit</b>	<b>DATE OF MEETING: 11 March 2019</b>

**INTERNAL AUDIT PLAN 2019/20**

**1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to inform Councillors of the proposed Internal Audit Plan for the next financial year 2019/20 and provide Councillors with a review of the variety and scope of projects and corporate activities that will be supported through the work of the team.

**2. OPTIONS CONSIDERED**

- 2.1 This is a regulatory report and there are no options to consider.

**3. RECOMMENDATION**

- 3.1 That the contents of this Internal Audit report, supported by Appendix A, be noted.

**REASON FOR DECISION**

For the Committee to note the Internal Auditors plan of work for 2019/20.

**4. KEY INFORMATION**

- 4.1 Each Council is required by statute to maintain an adequate and effective Internal Audit function, which forms an integral part of each Council's corporate governance, risk management and internal control arrangements. It is therefore essential that the Internal Audit Plan directs resources to areas of highest risk and has the approval and support of senior management and Councillors.
- 4.2 The preparation and development of the Internal Audit Plan is described in more detail in Appendix A below. The plan will be kept under review to ensure it reflects the evolving risk profile and priorities of the Councils going forward. Should significant amendments be necessary these will be discussed with senior management, including the Section 151 Officer and, where deemed necessary, reported back to this Committee.

**5. LINKS TO JOINT STRATEGIC PLAN**

- 5.1 The delivery of a comprehensive Internal Audit service supports the Councils' objectives, in particular:

An enabled and efficient organisation – The right people are doing the right things, in the right way, at the right time, for the right reasons.

5.2 However, all Internal Audit work has been associated with the Councils' strategic themes and the attached report, Appendix A, provides a summary of the proposed work undertaken by theme. This work will contribute to the 2019/20 Internal Audit opinion on the Councils' control environment provided by the Corporate Manager – Internal Audit, as required by the Accounts and Audit (England) Regulations 2015.

## 6. FINANCIAL IMPLICATIONS

6.1 Whilst there are no direct financial implications arising from this report, as the Internal Audit plan will be funded from within approved budgets, there are positive impacts on the overall financial control environment from the operation of a robust internal audit plan.

## 7. LEGAL IMPLICATIONS

7.1 There are no direct legal implications arising from this report.

## 8. RISK MANAGEMENT

8.1 This report is most closely linked to the Councils' Significant Risk number 5f, "The Councils may be perceived to be untrustworthy and have a poor reputation". The key operational risk, however, is set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Internal controls within each Council may not be efficient and effective.  As a result each Council may not identify any significant weakness that could impact on the achievement of their aims and/or lead to fraud, financial loss or inefficiency.	Unlikely 2	Bad 3	Councillors receive and note the internal audit work programme and other reports on internal controls throughout the year.  The work programme is based on an assessment of risk for each system or operational area.

## 9. CONSULTATIONS

9.1 The Internal Audit Plan was presented to the Senior Leadership Team (SLT) including the S151 Officer as part of the audit planning process.

9.2 As part of the preparation for this Plan, auditors engaged with senior management to identify their view of the coming year's risks linked to the Joint Strategic Plan and Delivery Programme, and to gather and map risk assurance across the Councils' functions.

9.3 This report has been shared with both Chairs of the Joint Audit and Standards Committee and the Cabinet Members for Organisational Delivery.

## 10. EQUALITY ANALYSIS

10.1 An equality analysis has not been completed as the report content does not have any impact on the protected characteristics.

**11. ENVIRONMENTAL IMPLICATIONS**

11.1 There are no environmental implications arising from this report.

**12. APPENDICES**

Title	Location
A. Detailed Proposed 2019/20 Internal Audit Plan	Attached

**13. BACKGROUND DOCUMENTS**

13.1 There are no further documents.

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### **1. Approach to Audit Planning**

- 1.1 The provision of a risk based Internal Audit Plan consistent with each Council's priorities is an essential part of ensuring probity and soundness of each Council's internal controls, risk exposure and governance framework.
- 1.2 The scope of internal audit work is planned to cover all operational and management controls (including governance and risk management arrangements) and is not restricted to the audit of systems and controls necessary to form an opinion on the financial statements. This does not imply that all systems are subject to review but were included in the audit needs assessment and considered for review following the assessment of risk.
- 1.3 There is due consideration in planning this work to ensure that Internal Audit maintains its objectivity and independence. The prioritisation of unplanned work will also take account of the requirements of the approved audit plan.
- 1.4 In line with the Councils' Internal Audit Charter the plan has been constructed to ensure that it delivers against the Public Sector Internal Audit Standards (PSIAS) and the requirement to produce an annual Head of Internal Audit opinion. In doing this it can be confirmed that the plan covers the following activities:
  - Governance processes
  - Monitoring
  - Ethics
  - Information and Information Technology governance
  - Risk management
  - Fraud management
- 1.5 In line with the requirements of the PSIAS the quality and compliance of Internal Audit service delivery was subject to independent external review during February 2018, with no material issues raised regarding this planning process.
- 1.6 The planning process also recognises that the Councils' are continuing to strive to improve services and use innovative approaches in addressing service delivery against a background of reducing resources.

### **2. Plan structure and key items to note**

- 2.1 The active resource available to the Corporate Manager – Internal Audit is 660 days, of which 339 (51.4%) are allocated to conducting audit reviews within business themes (52.6% 2018/19). This slight reduction reflects an allocation of time for potential work identified by the future Strategic Director.
- 2.2 The construction of the Audit Plan has been developed to support both the Annual Governance Statement and the Councils' Six Key Strategic Themes. Factors used in the risk assessment of services and processes to inform the proposed focus of audit for 2019/20 have been based largely, but not exclusively, on the following:

### 2.2.1 Risk profile

Consideration of key strategic and operational controls and associated risks.

### 2.2.2 Corporate Importance

Review of each Council's strategic priorities and those objectives/outcomes contained in the Joint Strategic Plan that sit beneath them.

### 2.2.3 Management Concerns

Engagement with senior management to identify management's view of the coming year's risks linked to the Joint Strategic Plan, the Councils' Six Key Strategic Themes and Delivery Programmes about which assurance is required e.g.

- Significant projects or programmes planned or underway;
- Areas subject to changing systems or processes;
- Areas where internal controls may be affected by changes in resources;
- Areas subject to high levels of inherent risk; and
- Significant contracts.

### 2.2.4 Financial materiality

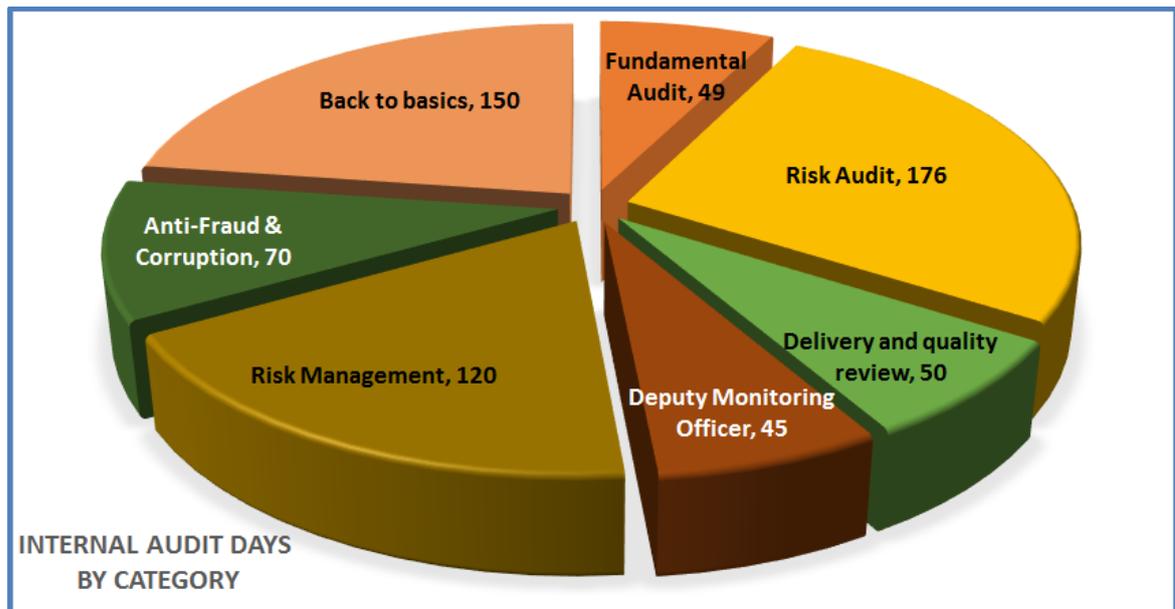
Consideration of 2019/20 Budget to evaluate levels of income and expenditure, value of assets, volume of transactions.

### 2.2.5 Control Assurance

- Cumulative audit knowledge and experience; a consideration of first principles; and audit reflection on whether aspects of the Councils' governance arrangements and frameworks are 'fit for purpose';
- Control assurance in respect of the three lines of defence: Sound management of front-line operations; Oversight of management activity within a professional framework; and External review by independent assurance providers;
- Previous assessments of the soundness of internal controls, taking in to account previous findings of Internal Audit and External Audit;
- Date of last audit – i.e. the longer the time since the last audit potentially the greater the risk.

### 3. Breakdown of planned time

- 3.1 The plan in Annex A provides the detail of time allocated. The coverage within individual audits continues, where appropriate, to include looking at transformation opportunities for improving efficiency and adding value.
- 3.2 The 660 days audit work proposed in the plan is structured to reflect the audit disciplines undertaken to support delivery of the governance and professional framework. The resources committed to each category is annotated in the detailed plan in Annex A, and in summary below:



- 3.2.1 Fundamental Audits (Managing Finance) (49 Days) to cover fundamental systems audit work on which reliance may be placed by the external auditors as they assess the Councils' final accounts. Where the control environment continues to improve there has been reduction in audit time allocated to audit in this area.
- 3.2.2 Risk Audits (176 days) identified in the audit planning and assurance process, conducted to support management reliance over the key controls in effect to manage major aspects of the Councils' operation. As the business continues to transform audit resource is allocated to this activity in this year's plan; and resources allocated to support projects to provide the necessary assurances around governance, risk profile and internal control arrangements. Projects will continue to be evaluated in terms of risk and scoped accordingly as management request support from Internal Audit.
- 3.2.3 This Year introduces an additional category; 'Back to Basics' (150 days), where the primary focus of the audit review will be to assess the efficiency and effectiveness of the key controls operating in a given process to provide management with comfort that the detective and preventative controls originally established continue as designed to combat the inherent risks identified within the function.

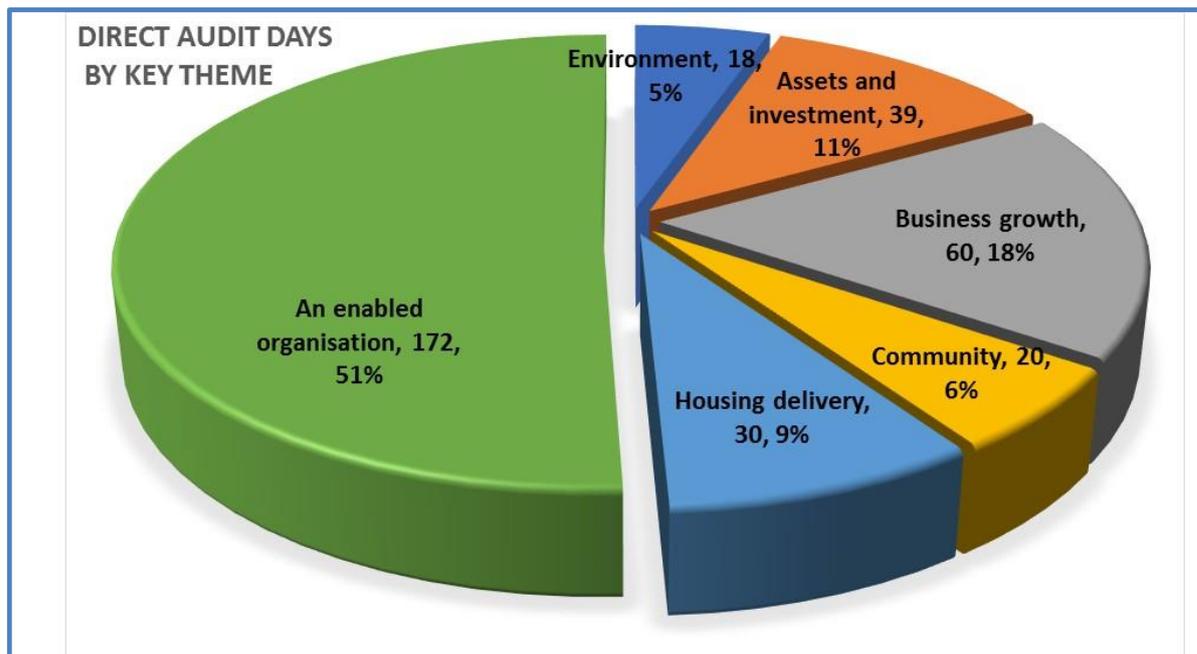
### 3.3 **Additional audit activity**

- 3.3.1 **Deputy Monitoring Role (45 days)** - The Corporate Manager - Internal Audit performs the role of Deputy Monitoring Officer for the Councils, with the specific duty to ensure that the Council, its officers, and its Elected Councillors, maintain the highest standards of conduct in all they do, pursuant to Section 5 of the Local Government and Housing Act 1989, as amended by Schedule 5 paragraph 24 of the Local Government Act 2000.
- 3.3.2 **Risk Management (120 days)** - Audit work will help to ensure that the Councils identify and effectively manage significant business and operational risks in line with the Risk Management Strategy.
- 3.3.3 **Counter fraud and corruption work (70 days)** - Ongoing proactive testing of systems and processes help to identify potential fraud and misappropriation, as well as non-compliance with policies and procedures. The audit team will reactively investigate potential wrongdoing, responding to fraud and corruption relating to non-benefit fraud cases. This includes co-ordinating data matching for the National Fraud Initiative (NFI); raising fraud awareness and providing training in areas such as money laundering; providing advice to services on introduction of new systems or procedures.

### 3.4 **Other aspects of our work** (Delivery and Quality 50 days) include:

- 3.4.1 **Governance arrangements** - audits which contribute to the development of both Council's Corporate Governance Framework and feed into the Annual Governance Statement.
- 3.4.2 **Miscellaneous audit delivery and quality review** - includes follow-up on prior year recommendations, unplanned audits and requests from management and compilation of the Annual Governance Statement.
- 3.4.3 **Advice and guidance** - the team proactively provide ongoing advice across both Councils. Whether through attendance at working groups, projects or responding to enquiries, early audit advice and support can help maintain a robust control environment and feed in good practice. It is likely to remain an area of demand during 2019/20 as managers at all levels, especially those implementing new systems, structures and relocations, require support.

4. **Internal audit days planned for each major business theme** amounts to 339 days as shown below:



- 4.1 The relative emphasis on audit coverage related to Enabled and Efficient Organisation is, in most part, due to the nature of audits concerned with generic efficiency and effectiveness across the Councils.
- 4.2 The next largest audit resource spend, Business Growth, reflects a focus on audits being conducted within Procurement, tender and contract management, fees and charges and the use of corporate payment cards.
- 4.3 Assets work includes review of Investment development (Babergh Mid Suffolk (BMS) Invest/ Capital Investment Fund Company (CIFCO)) and financial planning across the Councils.
- 4.4 Housing delivery audits propose reviews of Voids process and Babergh Mid Suffolk Building Services (BMBS) process of invoice payments and recording on the Open Housing system.

**Circulation:**

**Presented to SLT**, including Monitoring Officer and S151 Officer;

**Joint Chairs, JASC;**

**Cabinet Members** for Organisational Development;

Audit, Legal and Finance representatives.

## Annex A: Detailed Proposed 2019/20 Internal Audit Plan.

Audit	Days	Key areas	Intended benefits to the Council	
<b>Assets and investment – Improved achievement of strategic priorities and greater income generation through use of new and existing assets ('Profit for Purpose')</b>				
Capital Accounting	5	Asset management process between purchase, repair and financial reporting. - adopting list of lessons learnt from F/Acs - finance workshop of deliverables to be held - audit post this	Covering statutory work in conjunction with External Audit. The beneficial outcomes can include an improved control environment, enhanced management information and streamlined processes thereby improving organisational efficiency.	F
Receivables / Debtors	5	Income management, inc. debt recovery - how fed back to business by finance and managed by service areas. Inc VAT analysis on income.	In addition these reviews provide governance assurance to the S151 Officer and Senior Management.	F
Treasury Management	4	Corporate Cash Management and links to funding of business strategy.	Fraud may be identified as a consequence of this work.	F
Investment development and financial planning (Work with BMS / CIFCO)	25	The Asset Strategy will ensure that the use of the Councils' property portfolio is maximised, demonstrating that assets are performing well in terms of support for service delivery, generating income, and are as efficient as possible in terms of outgoings; and land and surplus buildings are used to support strategic priorities.	Ensure that the changes safeguard assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community. Advise on making the system fit for purpose in supporting smooth business growth and housing development across the districts.	B
	39	Assets and investment planned days		
<b>Business growth and increased productivity – Encourage development of employment sites and other business growth, of the right type in the right places and encourage investment in skills and innovation in order to increase productivity</b>				
Corporate Payment Cards	10	A new purchase card user guide has been updated Jan 2019. Review compliance and spend profile by card holders. Spend analysis, profiles & seasonal trends, product types etc.	Gain assurance of the veracity of the procurement processes and procedures implemented across the business to ensure that the right people are doing the right things, in the right way, at the right time, for the right reasons and are able to prove it.	A
Procurement / Contract Management	25	Oversight and management of Contracts, inc budget management etc. What can be done at each stage, needs identification, award, delivery to improve the process and engage service across the Councils?		B
Fees & Charges	20	Review the Councils planning and delivery of fees structure. Evaluate the capability to provide a commercial approach and better understanding of the charges position and impact on budget and sales volume	Enhance decision making, reporting and evaluation in support of the business achieving profitable and cost effective delivery. Support the business to ensure that the right people are doing the right things, in the right way, at the right time, for the right reasons.	B
Payables / Creditors	5	Management oversight, performance and compliance activity. Aggregation of payments & links to procurement.	Covering statutory work in conjunction with External Audit. The beneficial outcomes can include an improved control environment, enhanced management information and streamlined processes thereby improving organisational efficiency. In addition these reviews provide governance assurance to the S151 Officer and Senior Management.	F
	60	Business growth and increased productivity planned days		
<b>Community capacity building and engagement – All communities are thriving, growing, healthy, active and self-sufficient</b>				
Capital Programme	20	Review existing projects, and processes involved in their delivery, to ensure that the Councils are improving the economic health and wellbeing of the districts - review of the Councils' internal systems and procedures that are in place to ensure successful development, management and delivery of the Capital Programme	Safeguarding the assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community. Advise on making the system fit for purpose in supporting smooth business growth and housing development across the districts.	R
	20	Community capacity building and engagement planned days		
<b>Housing delivery – More of the right type of homes, of the right tenure in the right place</b>				
Voids	10	Analysis of property becoming empty, handed to the Repairs Team to inspect for any maintenance works required before they are re-let. Review of performance in E2E and comparative statistics	Ensure that the changes safeguard assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community. Advise on making the system fit for purpose in supporting smooth business growth and housing development across the districts.	R
BMBS activity management	20	Process of invoice payment and recording on Open Housing, the impact on unit costing and the creation, reporting and evaluation of delivery performance. The process of raising work orders in Capita Open Housing and following that process through to payment within Integra and the closing of jobs.		R
	30	Housing delivery planned days		
<b>Environment, Waste and Leisure – where individuals, families, communities and businesses can thrive and flourish</b>				
Strategic development	6	Undertake an appraisal of the Leisure and Environment Strategy process through review of the governance and delivery management framework established to produce the strategy	Community capacity building and engagement – All communities are thriving, growing, healthy, active and self-sufficient	R
Contingency to be evaluated from other proposed reviews and appointment of new AD	12	To determine and apply time as appropriate, following on from planned budget, contract, or people audit reviews and discussion of requirements with the new Assistant Director.		R
	18	Environment, Waste and Leisure planned days		
<b>An enabled and efficient organisation – The right people are doing the right things, in the right way, at the right time, for the right reasons and are able to prove it</b>				
Budgetary control	30	Process of managing centralised budgets; communication and challenge of budgets spread across services; control of one activity dependant upon another.	Gain assurance of the veracity of the processes and procedures implemented across the business to ensure that the right people are doing the right things, in the right way, at the right time, for the right reasons and are able to prove it. In addition these reviews provide governance assurance to the S151 Officer and Senior Management	R
Data quality management - impact on reporting and decision making	20	Quality of data provided for decision making, integrity checks and validation of report content. How do we gain assurance over data used in the business?		R
General Ledger	5	Focus on follow up of issues raised in 18/19 regarding reconciliations and management oversight		F
Payroll	5	Follow up on outstanding actions and review the challenges faced in recognising, approving and meeting key deliverables - issues with payment approval, and timings of release. Additionally review the mechanisms controlling recovery of expenses (e.g. education fees) from leavers.		F
Health and Safety	20	Risk management review of the procedures in place to identify and manage the Councils' estate particularly for Fire safety		B
Planning (with a small 'p')	15	Focus on the basics' lack of focus and attention on objectives and results – affects anticipated problems to cope with change - affects decision making - Planning is primary, because without knowing what the Councils wants to accomplish, management can't intelligently undertake any of the other basic managerial activities: organizing, staffing, leading, and/or controlling.	Outcomes can include an improved control environment, enhanced management information and streamlined processes thereby improving organisational efficiency. In addition these reviews provide governance assurance to the S151 Officer and Senior Management.	B
Project management and delivery	15	Stakeholders not identified early within the process – causes delays in the process. Again comes back to lack of focus on the basics and inability to identify with either strategy or risk profile. Governance and application of basic PM skills and accountability. Inc review of key projects progress - cf JOSIE		B
Scheme of delegation	12	How it is managed, officers acting ultra vires, committee report length & complexity, levels of reporting, delegation from Committee / Councillors to AD, to CM		R
Ethical Audit	25	In line with guidance from CIPFA, SOLACE, the LGA and the Audit Commission (et al) consider how the Councils' Ethical framework defines the principles of corporate governance and consider how the principles have been reflected in the dimensions of the Councils' business.	This work supports the governance and effective operation of the organisation and can aid with the security of assets. It will further provide information and feedback to Members and Officers, as well as ensuring the Councils meet the reporting requirements of statutory and Local Government bodies.	B
The Governance framework peer review developments and growth	25	Review the adoption, implementation and embedding of the 2012 Local Government Association Corporate Peer Challenge		B
	172	An enabled and efficient organisation planned days		
<b>Other Audit Activity</b>				
Work in progress from previous year	6	Finalisation of any outstanding work. Liaison with External Auditors over review of internal audit work.	Covering statutory work in conjunction with External Audit. The beneficial outcomes can include an improved control environment, enhanced management information and streamlined processes thereby improving organisational efficiency	R
Follow Ups	5	Implementation of audit recommendations deemed as high risk.		R
Requests for support from management	35	Unplanned investigations assessing the impact on controls and processes through specific events.		R
Deputy Monitoring Role	45	Work to be undertaken by the Corporate Manager - Internal Audit.	Provide comfort to Management that the Councils are fulfilling their legislative and fiduciary duties, and determine the Councils' resilience of and compliance with legislation.	MO
RIPA	10	Work to be undertaken by the Corporate Manager - Internal Audit.		A
Annual Governance Statement	20	Collation, interpretation, challenge and presentation of management opinion of control assurance and governance across the Councils.		Q
Anti-Fraud & Corruption work including the National Fraud Initiative (NFI)	50	Proactive: Money Laundering, Policy reviews, Advice and guidance - awareness, Staff training. NFI Data monitoring. Reactive: Investigations. Data matching (statutory requirement).		A
Audit Management and service delivery	30	Service delivery - (Ctee reports, audit planning and control risk assessment).	Supports the governance and effective operation of the organisation and can aid with the security of assets. It will further provide information and feedback to Members and Officers, as well as ensuring the Councils meet the reporting requirements of statutory and Local Government bodies.	Q
Risk Management	120	Committee report cycle – Cabinet half yearly and JASC annually. Review and challenge of Significant Risk Register. Training, advice and guidance to members & officers. Annual review joint Risk Management Strategy and maintain oversight of the Operational Risk Registers.		RM
	321	Other Audit Activity planned days		
	660	Total Days Planned		
		Fundamental Audit		F
		Risk Audit		R
		Delivery and quality review		Q
		Anti-Fraud & Corruption		A
		Back to basics		B
		Risk Management		RM
		Deputy Monitoring Officer		MO