

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Corporate Manager – Internal Audit	Report Number: JAC/17/20
To: Joint Audit and Standards Committee	Date of meeting: 12 March 2018

INTERNAL AUDIT PLAN 2018/19

1. Purpose of Report

1.1 This report details the proposed Internal Audit Plan for the next financial year.

2. Recommendation

2.1 That the Internal Audit Plan 2018/19, as detailed in Appendix A be approved, subject to Committee's review and assessment of the plan.

3. Financial Implications

3.1 Whilst there are no direct financial implications, 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.

4. Legal Implications

4.1 There are no legal implications arising from these proposals, although a robust audit plan provides positive contribution to the overall governance framework of the Councils.

5. Risk Management

5.1 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 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.

5.2 The preparation and development of the Internal Audit Plan is described in more detail from paragraph 10 onwards.

5.3 The key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Internal control weaknesses and potential for fraud exists.	Unlikely (2)	Bad (3)	Work programme that focuses on key risk areas, including fundamental systems.

Inefficient processes or systems in place	Unlikely (2)	Bad (3)	Audit work considers efficiency issues and appropriate recommendations are made.
---	--------------	---------	--

6. Consultations

- 6.1 The Internal Audit Plan was discussed with the Senior Leadership Team (SLT) including the s151 Officer as part of the audit planning process.

7. Equality Analysis

- 7.1 There are no equality and diversity implications arising from this report.

8. Shared Service / Partnership Implications

- 8.1 The overall approach has been to develop a single shared model for internal audit delivery and management for both Councils.

9. Links to Joint Strategic Plan

- 9.1 The delivery of a comprehensive internal audit service supports the Council 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 and are able to prove it.

However, the plan has been designed to support all five of the Council's strategic themes. The proposed allocation of audit days is shown both in the attached detailed report and the associated pictorial representation in Appendix A.

10. Key Information

Approach to Audit Planning

- 10.1 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.
- 10.2 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.
- 10.3 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.
- 10.4 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

10.5 In line with the requirements of the PSIAS the quality and compliance of Internal Audit service delivery has been subject to independent external review during February 2018. The formal outcome of this review will be reported to this Committee in May 2018, but there were no material issues raised regarding this planning process.

10.6 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.

10.7 Internal Audit resources have therefore been targeted across the Councils' services using a risk based approach including support to project teams through this change to help maximise the effectiveness of internal control.

Plan structure and key items to note

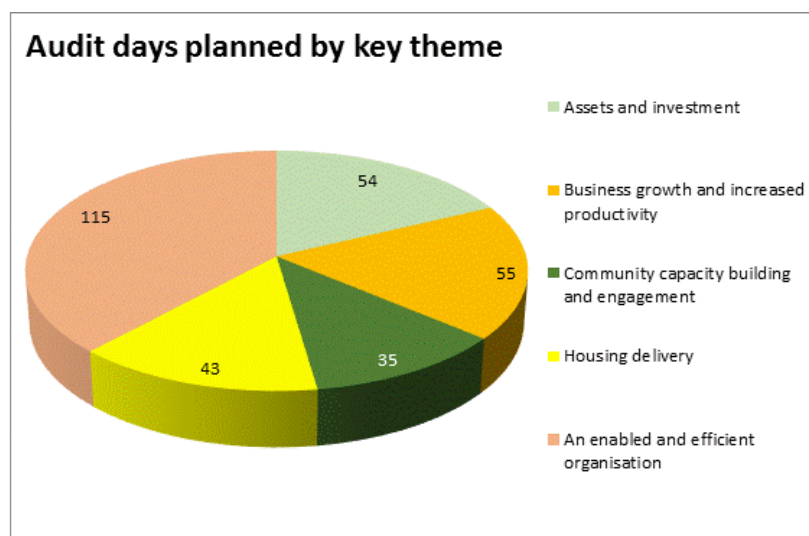
10.8 The active resource available to the Corporate Manager – Internal Audit is 612 days, of which 322 are allocated to conducting audit reviews (775 - 2016/17 (465 audit)). This reflects adjustments to staff changes during the year, which were presented to this Committee in Section 8 of paper JAC/17/12, 'The Interim Internal Audit Report 2017/18', on 13 November 2017.

10.9 The construction of the Audit Plan has been developed to support both the Annual Governance Statement and the Councils' Five Key Strategic Themes. Factors used in the risk assessment of services and processes to inform the proposed focus of audit for 2018/19 have been based largely, but not exclusively, on the following:

- Consideration of key controls and associated risks;
- Review of each Council's strategic priorities and those objectives/outcomes contained in the Joint Strategic Plan that sit beneath them;
- 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'.
- Engagement with senior management to identify management's view of the coming year's risks linked to the Joint Strategic Plan and Delivery Programme 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 reductions in resources;
 - Areas subject to high levels of inherent risk; and
 - Significant contracts.

- Financial materiality – e.g. levels of income and expenditure, value of assets, volume of transactions;
- Control environment – 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 into account previous findings of Internal Audit and External Audit;
- Management concerns over the stability, complexity and vulnerability – taking into account such factors as the stability of management and staffing arrangements, changes in locations, complexity/changes in regulations and legislation, major system changes, new IT systems etc.; and
- Date of last audit – i.e. the longer the time since the last audit potentially the greater the risk.

10.10 During the planning process managers were asked to contribute proposals for audit engagement within the Councils' Five Key Strategic Themes. The plan in Appendix A details this approach, and the audit days allocated are shown below:



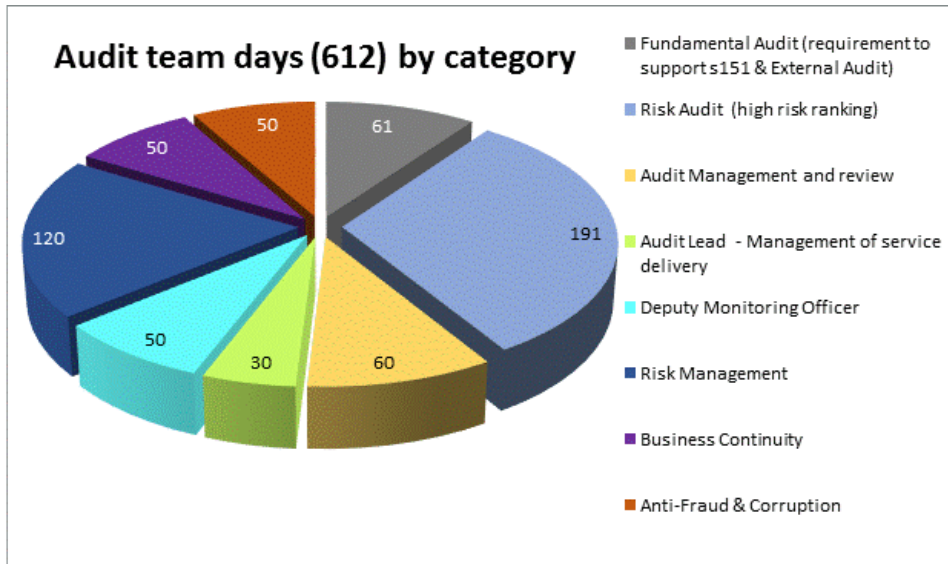
The relative emphasis on audit coverage related to Enabled and Efficient Organisation is, in part, due to the nature of audits concerned with generic efficiency and effectiveness across the Councils, such as Information Technology Business Continuity and Health and Safety.

The next largest audit resource spend, Business Growth, reflects a particular focus on audits being conducted within Procurement, tender and contract management incorporating reviewing activities associated with the shared legal service.

Housing delivery audits are determined by the changes within and focus on, the activities both within housing improvement grants and recent system changes.

Community capacity audits include CIL, building control and waste management.

- 10.11 The coverage within individual audits continues, where appropriate, to include looking at transformation opportunities for improving efficiency and adding value.
- 10.12 The audit work proposed in the plan is also 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 Appendix A, and in summary below:



- Fundamental Audits (Managing Finance) – Days included in the plan 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;
- Risk Audits – 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;

Other audit activity, including:

- Governance arrangements – Audits which contribute to the development of both Council’s Corporate Governance Framework and feed into the Annual Governance Statement;
- Monitoring Role – 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.

- Risk Management – 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;
- Counter fraud work - 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. Full details of counter fraud work undertaken is contained within the annual report entitled 'Managing the Risk of Fraud and Corruption 2017/18', tabled as a separate paper to this Committee;
- Business Continuity – to maintain the Councils' Business Continuity Plan and ensure it remains 'fit for purpose' by undertaking an annual refresh; establish risk management processes and procedures that aim to prevent interruptions to mission critical services; facilitate update of action cards; and provide general advice and guidance to officers.
- 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 2018/19 as managers at all levels, especially those implementing new systems, structures and relocations, require support.

Conclusion

10.13 The Internal Audit Plan will be kept under review to ensure it reflects the shape 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.

11. Appendices

Title	Location
(a) Detailed Proposed 2018/19 Internal Audit Plan	Attached

12. Background Documents

12.1 None

Authorship:
John Snell
Corporate Manager - Internal Audit

01473 296336
john.snell@babberghmidsuffolk.gov.uk

Appendix A: Detailed Proposed 2018/19 Internal Audit Plan.

Prioritised Internal Audit Plan for 2018/19 All audits to include control environment, good practice and transformational aspects				
Audit	Days	Key areas	Intended benefits to the Council	
Assets and investment – Improved achievement of strategic priorities and greater income generation through use of new and existing assets ('Profit for Purpose')				
Capital Accounting	15	Asset management process between purchase, repair and financial reporting.	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. Fraud may be identified as a consequence of this work.	F2
Receivables / Debtors	10	Income management, inc. debt recovery - how fed back to business by finance and managed by service areas. Inc VAT analysis on income.		F1
Treasury Management	4	Corporate Cash Management and links to funding of business strategy.		F3
Investment and Development Strategy effectiveness and efficiency	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.	R1
	54	Assets and investment planned days		
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				
1. Sourcing contracts, the Tendering process	15	The role of the service in managing the tender process. Identifying the need to tender, how are the quotes to tender are managed and evaluated and proceed to contract.	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.	R1
2. Contract Management	15	Oversight and management of Contracts, inc budget management etc.		R2
3. Procurement	15	Compliance testing against new procurement framework / guidance. Inc VAT on spend. The process of raising work orders in Capita Open Housing and following that process through to payment within Integra and the closing of jobs.	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.	F2
Payables / Creditors	10	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.	F3
	55	Business growth and increased productivity planned days		
Community capacity building and engagement – All communities are thriving, growing, healthy, active and self-sufficient				
Community Infrastructure Levy (CIL)	10	Collection audit looking at spending arrangements when embedded. (Q3) Is the spend of s106 spend proactively managed.	Support the development of suitable housing in the area, the development of businesses and the operational development of the Council through challenge of the identification and management of risks and procedures associated with the changes.	R1
Performance reporting	10	Heritage and specific information regarding numbers of applications, % of planning applications that required heritage advice, of the applications that did require heritage advice what was the make up of those, number that were really basic etc.	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.	R3
Waste Management	15	Brown bin cradle to grave process (inc payment process).	Community capacity building and engagement – All communities are thriving, growing, healthy, active and self-sufficient	R1
	35	Community capacity building and engagement planned days		
Housing delivery – More of the right type of homes, of the right tenure in the right place				
Disabled facilities Grant	20	Review of the allocation of grant monies, the oversight of work conducted and clause enforcement. Analyse the link (if any) to the capital spend in Housing property budget for Disabled facilities.	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.	R1
Housing delivery	8	What Housing has in place to satisfy last year's original 4i review of Compliance and the effectiveness of any control measure.		R2
System embedding	15	New system (Uniform) brought in last summer. Consider Effectiveness & Controls, Internal and external responses to applications. Some services are slow, some don't respond. Does everyone know their role and responsibilities/processes? Errors have occurred where approval went out but should be refused, no committee decision, agreed extended timescales forgotten. Risk: If more than 10% of planning appeals are lost, Gov determines the quality of our work is not satisfactory. How do our applications feed into 106 agreements?		R2
	43	Housing delivery planned days		
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				
Making use of leading edge technologies (Data Management and IT)	13	ICO Healthcheck for the General Data Protection Regulation (GDPR) (To be completed in April 18) (and phase 2 compliance check Q2.)	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.	R1
General Ledger	7	Focus on follow up of issues raised in 17/18 regarding reconciliations & inc SRP recs.	In addition these reviews provide governance assurance to the S151 Officer and Senior Management	F2
Health and Safety	25	Compliance and substantive testing of Health and Safety processes and records to confirm compliance with Council Policy. Audit will work alongside the Health and Safety Officer to support and challenge new initiatives.	Provide comfort to Management that the Councils' are fulfilling their legislative duties and that the welfare of staff is being met. Determine the Council's resilience of and compliance with legislation.	R2
Public Access for Land Charges (PALC) search fees (income)	10	Review of end to end process, key risks and key controls.	Outcomes can include an improved control environment, enhanced management information and streamlined processes thereby improving organisational efficiency.	R2
Ethical behaviour	10	Gifts & Hospitality - Ethical behaviour - declaration of interests.	In addition these reviews provide governance assurance to the S151 Officer and Senior Management.	R1
Business Continuity	50	Exercise with SCC, Annual review of Plan, action cards, critical service review and emergency response.	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
	115	An enabled and efficient organisation planned days		
Other Audit Activity				
Work in progress from previous year	10	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	M
Follow Ups	5	Implementation of audit recommendations deemed as high risk.		M
Requests for support from management	25	Unplanned investigations assessing the impact on controls and processes through specific events.		M
Deputy Monitoring Role	50	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 Council's resilience of and compliance with legislation.	MO
Annual Governance Statement	20	Collation, interpretation, challenge and presentation of management opinion of control assurance and governance across the Councils.		M
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 Lead - Management of service delivery	30	Service delivery - (Cttee 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.	L
Risk Management	120	Committee report cycle – Executive and Strategy 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.		RM
	310	Other Audit Activity planned days		
	612	Total Days Planned		
		Fundamental Audit (requirement to support s151 & External Audit)		F
		Risk Audit (high risk ranking)		R
		Audit Management and review		M
		Anti-Fraud & Corruption		A
		Audit Lead - Management of service delivery		L
		Risk Management		RM
		Business Continuity		B
		Deputy Monitoring Officer		MO