


Agenda Item No:	<b>8</b>	
Committee:	<b>Corporate Governance</b>	
Date:	<b>19/03/2018</b>	
Report Title:	<b>Risk based Internal Audit Plan 2018/19</b>	

## 1 Purpose / Summary

In accordance with the Public Sector Internal Audit Standards the Internal Audit Manager has prepared the attached Internal Audit Plan. It considers the areas for audit review and the availability of internal audit resources.

## 2 Key issues

- The Council's Internal Audit work plan is produced on an annual basis. It is an estimate of the work that can be performed over the financial year. Potential areas of the Council for audit are prioritised based on a risk assessment, enabling the use of Internal Audit resources to be targeted at areas of emerging corporate importance and risk.
- The format of the plan reflects the Public Sector Internal Audit Standards (PSIAS) which were introduced in April 2013. The PSIAS were revised and came into effect in April 2017. It also incorporates the governance and strategic management arrangements of Internal Audit resources.
- Following on from the External Assessment completed in December 2016 the Audit plan now includes cross referencing to the Corporate Priorities, which was a suggested improvement made by the assessor.
- There are a total of 333 budgeted productive days for 2018/19.
  - 294 days are allocated to operational audit work. This resource is used to calculate the risk based audit plan. This work contributes to the annual opinion on the effectiveness of the system of internal control, which is reported to the Committee.
  - 39 days are allocated for other productive assurance work. This includes proactive anti-fraud and error work such as the National Fraud Initiative, project based assurance, a contingency for responsive work and following up previous recommendations.
- The risk based plan assumes that the team comprises 2.1 FTE. This level of capacity is sufficient to provide continued internal audit coverage of all key control systems over a 3 year cycle. Some low risk systems may be audited less frequently in favour of systems with new or changing risks, subject to an ongoing risk evaluation.
  - The audit plan for 2018/19 is attached at Appendix A.
  - The Assurance rating classification is included at Appendix B.
  - The 'fundamental systems' audit reviews over the next 5 years is included at Appendix C

- The Council has 10 key financial systems, known as 'Fundamental' systems, due to their significance and materiality. Detailed testing provides assurance to the Council's External Auditors in preparation for final accounts compliance. Following repeated years of positive assurance the Committee and the External Auditors agreed an approach that would maximise assurance with the most effective use of resources. This approach will continue to be discussed with the External Auditors, reflecting any changes to the level of risk for these systems.
- This is illustrated in Appendix D which shows that the Payroll system is reviewed annually, and with the introduction of the new auditing arrangements with ARP the Council Tax, Business Rates and Housing Benefits are also reviewed annually. The remaining systems will be audited over a three year cycle.

### 3 Recommendations

The Committee is asked to acknowledge the Internal Audit resources and to consider and note the attached Internal Audit Plan for 2018/19.

<b>Wards Affected</b>	All
<b>Forward Plan Reference</b>	N/A
<b>Portfolio Holder(s)</b>	
<b>Report Originator(s)</b>	Kathy Woodward – Shared Internal Audit Manager
<b>Contact Officer(s)</b>	Brendan Arnold – Corporate Director & Chief Finance Officer Carol Pilson – Corporate Director & Monitoring Officer Kathy Woodward – Shared Internal Audit Manager
<b>Background Paper(s)</b>	Accounts and Audit Regulations 2015 Public Sector Internal Audit Standards 2016 CIPFA Local Government Application Note 2013 Fenland District Council Corporate Plan Internal Audit Charter

Risk based Internal Audit plan



## **1 Introduction**

- 1.1 This document sets out the Internal Audit risk based plan. It is intended to demonstrate how Internal Audit will support the overall aims and objectives of the Council by:
- providing the Chief Executive, Section 151 Officer and Corporate Governance Committee with an overall opinion each year on the Council's control environment to support the Annual Governance Statement requirements;
  - preparing audit plans that give suitable priority to the Council's priorities and key risks and concentrate resources on areas that have been identified as being the most vulnerable;
  - providing suggested actions to line management at the conclusion of each piece of audit work that will assist in continuous service improvement and reduce the risks identified;
  - identifying the audit resources required to deliver an audit service that meets required professional standards; and
  - complying with professional standards.
- 1.2 The plan is presented with the Internal Audit Charter. The plan is risk based and covers the organisations existing operations, while adding value by responding to emerging risks and promoting good governance.
- 1.3 The plan will be reviewed at least annually to ensure its continued relevance, both in terms of supporting the council's aims and corporate objectives, and in achieving a professional, modern audit service.
- 1.4 The strategic aims for Internal Audit in 2018/19 are to:
- prepare, maintain and deliver the risk based internal audit plan;
  - proactively promote understanding of risk and control;
  - recommend actions that help systems meet at least adequate levels of control;
  - facilitate provision of assurance for the Annual Governance Statement;
- 1.5 The plan is supported by the teams Service Plan, which is aligned to the Council's Corporate Priorities, and is agreed with the Internal Audit team through the Council's Springboard process.

## **2 Role of Internal Audit**

- 2.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that authorities must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 2.2 Fenland District Council has responsibility for ensuring that statutory internal audit arrangements are in place to the Corporate Director & Chief Finance Officer. These arrangements form a key element of the District Council's framework for corporate governance.
- 2.3 The Shared Internal Audit Manager oversees internal audit provision to the District Council on behalf of the Corporate Director & Chief Finance Officer, and the Corporate Director responsible for day to day management.
- 2.4 The objectives, scope and definitions of Internal Audit are detailed in the Internal Audit Charter.

### 3 Risk assessment

3.1 The Council's audit plan is based on a risk assessment of all the Council's major systems and other auditable areas. This allows us to prioritise those areas and systems to be included within the plan. Key risk assessment factors include:

<u>Factor</u>	<u>Description</u>
Materiality – Value	The value of annual direct income / expenditure associated with the system / activities
Materiality – Volume	An estimate of the number of transactions processed by the systems / activities per annum
Significance / Profile	The significance of the system to the activities of the Council.
Complexity	The complexity of the systems / activities in terms of their operation and auditability
Change	Recent changes to the system or the likelihood of change to the systems in the audit period planned
Regulatory / Contractual	Extent to which the system / activity is subject to regulation or contractual obligation
External Monitoring	The extent to which a service / activity is monitored or audited by an external body
Prior Audits	Overall rating of last audit and result of follow up.
Susceptibility to fraud and corruption	Opportunity within the system / activity for fraud and corruption to occur.
Staff Turnover	The turnover of staff, especially with key skills.

3.2 The risk assessment, and update of the annual plan, is informed by consultation with key stakeholders, including:

- the Corporate Director & Chief Finance Officer;
- the Corporate Director & Monitoring Officer;
- the Corporate Management Team;
- the Council's team managers;
- the Council's external auditors;
- the Corporate Governance Committee.

3.3 Consultation helps ensure that stakeholder's views and risks are reasonably identified and reflected within the plan. Where possible External Audit will place reliance on the work of internal audit, and other external providers of assurance will be referred to help formulate the annual audit opinion. This helps ensure that resources are used to the best effect, and duplication is avoided.

3.4 The plan is also informed by key corporate documents such as:

- Business Plan;
- Medium Term Financial Strategy; and
- the Council's risk registers.

## 4 Key themes

The key themes, which have driven our assessment of risk and strategic aims are:

Area	Comment
Financial excellence	There is a continued need to ensure value for money is achieved, including financial resilience and the ability to prioritise resources within increasing financial constraints and a changing control environment.
Corporate Governance arrangements	The Internal Audit Manager will independently review and give an opinion on the Council's arrangements for both corporate governance and risk management, to support the production of an annual governance statement to accompany the statement of accounts. The team will maintain an awareness of emerging risks to help provide advice on effective internal controls.
Assurance mapping	Where other well-developed assurance processes exist (e.g. documented Control Risk Self-Assessment reviews, quality management audits, the work of other review or inspection teams) the internal audit team will quality assure these processes and consider how they can deliver a significant contribution to the overall audit opinion of internal control.
Improving information governance	As part of the planned audits the team will help to promote good information and data management practice throughout the organisation.
Risk management	Internal Audit will continue to assist teams identify business risks as part of audits. This will engage our customers in the management and maintenance of their risks and controls at an operational level, and also help identify and escalate concerns to the corporate risk register.
Minimising fraud and error	<p>The Internal Audit team will ensure that the Anti-fraud &amp; corruption policy &amp; strategy reflects best practice and will appraise fraud risks during audits.</p> <p>Internal controls will continue to be tested for effectiveness and the team will participate in data matching exercises, as provided by the National Fraud Initiative, to proactively identify fraud and error.</p>
Corporate priorities	The Corporate plan, and the Council priorities, informs the audit strategy. The annual plan is based on the risk profile of activities supporting the Corporate Plan, and will continuously be revised to reflect any emerging changes to corporate risk.

## **5 Audit needs and resources**

- 5.1 The risk assessment process identifies auditable systems, and helps to prioritise the audit plan in consultation with key stakeholders.
- 5.2 Systems assessed as below adequate assurance, during the previous financial year, which are not subject to a planned audit will be considered for a follow up review to assess the effective implementation by management of agreed audit recommendations.
- 5.3 Where common areas of risk are identified across several teams then the use of corporate themed reviews is considered to ensure an approach which is both consistent and makes effective use of resources.
- 5.4 Both the resources and capacity of the Internal Audit Team is considered annually whilst setting the annual plan. The Internal Audit Team has 2.1 full time equivalents.
- 5.5 Unproductive days, such as training and annual leave, are deducted from the total resource to calculate the total number of planned productive days.
- 5.6 Internal Audit team resources will enable all services of the Council to receive audit coverage over a three year period, although realistically some may be considered of such low priority in relation to other areas that they may only be covered in five years.
- 5.7 This Internal Audit plan is produced and provides details for a 12 month period. The Shared Internal Audit Manager will review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls. Where work in progress occurs it will be carried forward for completion within resources available in the next year.

## **6 Audit delivery**

- 6.1 The approach of internal audit is to use risk based reviews, supplemented in some areas by the use of system-based audits and themed reviews. All audits have regard to management's arrangements for: -
- securing the proper, economic, efficient and effective use of resources;
  - achieving key performance indicators, where appropriate;
  - preventing fraud and irregularity.
- 6.2 The internal control system contains 10 key systems known as 'Fundamental' audits, which are agreed with the external auditors through an 'Internal / external audit protocol'. A compliance approach is applied, as there is pre-existing confidence that controls are well designed, but the effective operation of the controls is a material concern. Testing for the effective operation of these controls is completed over a planned three year cycle, although can be audited more frequently if assurance is required. The new ARP auditing arrangements have allowed us to gain assurances on an annual basis for Council Tax, Business rates and Housing Benefits. The 'Payroll' system will be reviewed annually to reflect the potential risk of the system. A continuous auditing approach is adopted that spreads the testing throughout the year. This helps to ensure that the work is delivered, and reduces the burden on the customer.
- 6.3 The audit plan includes 'Governance' reviews of anti-fraud and corruption and risk management. They are reviewed annually to help form the annual opinion on the effectiveness of Internal Control.
- 6.4 The remainder of the systems are prioritised by their risk based assessment. The approach to each audit is agreed, with the customer, during the planning stage of the audit.
- 6.5 In addition to these planned audits the team will complete other assurance work which adds value to the organisation. Examples include proactive anti-fraud and error work such as fraud risk education and data matching, project based assurance, contingency for responsive work, and following up previous audit recommendations
- 6.6 The PSIAS states that the Internal Audit Manager should consider accepting consulting engagements based on the potential to improve management of risks, add value and improve the organisation's operations. The team will participate in corporate projects that add value by improving governance and controls throughout the Council.
- 6.7 Requests for unplanned work will be considered against capacity to ensure internal audit's independence, and the resource required to provide the annual audit opinion, is not compromised. Any significant additional consulting activities, which impact delivery of the plan, will be communicated to the Committee.
- 6.8 The output of audits completed during the year will inform the annual audit opinion. The annual internal audit opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This will be reported through the annual Internal Audit Outturn report which is a key source of assurance for the Annual Governance Statement.



## **7 Quality and performance**

- 7.1 The Internal Audit Service maintains a manual, which sets out the standards to which all audit assignments are completed. It is reviewed and updated to reflect the best practice and professional standards.
- 7.2 The performance of Internal Audit is measured against targets and objectives set out in the Team Service Plan.
- 7.3 At a detailed level each audit assignment is monitored and customer feedback sought.
- 7.4 There is ongoing performance appraisal and supervision for all Internal Audit staff during the year to support them in achieving their personal targets.
- 7.5 The Corporate Director & Chief Finance Officer shall in accordance with the Accounts and Audit regulations 2015 arrange for an assessment of quality independently of the Internal Audit service. Additionally an external review of the Internal Audit Service is completed by the external auditors, by placing assurance on fundamental internal control audit work, with any adverse performance reported in the Audit and Inspection Annual Letter.
- 7.6 The Internal Audit Service will continue to liaise closely with other internal audit services through the shared Internal Audit Manager arrangements with Borough Council Kings Lynn and West Norfolk, Cambridgeshire Audit Group, the Chartered Institute of Public Finance Accountants, the Institute of Internal Auditors, and the Association of Local Authority Risk Managers in order to share knowledge of best practice.

## Appendix A: Internal Audit plan

The following table lists the systems which are included within the proposed audit plan for 2018/19.

Corporate Priority	Audit Area	Fundamental	Risk Rating	Last Audit Date	Previous Audit results	Days
Communities	Housing Benefits	Y	Medium	2017/18	Ongoing	1
Communities	Housing Benefits - Overpayments		Medium	2017/18	Ongoing	*
Economy	Combined Authority - Commissioned works projects		Medium	New		6
Economy	Development - Fee income		Medium	2015/16	Substantial	8
Economy	Trading operations - Yacht harbour		Medium	2015/16	Adequate	8
Environment	Play Areas		Medium	New		8
Environment	Contract monitoring - Animal Control		Medium	2015/16	Adequate	10
Environment	Contract monitoring - Grounds maintenance		High	2015/16	Adequate	10
Environment	Licences - Animal welfare		Medium	2015/16	Adequate	6
Environment	Licences - Other		Medium	2014/15	Adequate	6
Environment	Refuse - Waste strategy & recycling credits		High	2015/16	Substantial	10
Environment	Trading operations - Community events		Low	2015/16	Adequate	6
Quality Organisation	ARP Enforcement		Medium	2017/18	Ongoing	12
Quality Organisation	Council Tax	Y	Medium	2017/18	Ongoing	1
Quality Organisation	3 C's - Customer care		Medium	2015/16	Substantial	6
Quality Organisation	Asset Register		Medium	2015/16	Substantial	6
Quality Organisation	Capital finance planning	Y	Medium	2015/16	Substantial	6
Quality Organisation	Communications		Medium	New		10
Quality Organisation	Corporate assurance - Anti Fraud & Corruption		Medium	2017/18	Ongoing	5
Quality Organisation	Corporate assurance - Information & Data Management		High	2015/16	Adequate	12
Quality Organisation	Corporate assurance - Performance management		Low	2014/15	Adequate	4
Quality Organisation	Corporate assurance - Transparency		Medium	2015/16	Adequate	4
Quality Organisation	Business Rates	Y	Medium	2017/18	Ongoing	1
Quality Organisation	Corporate finance - Procurement		High	2015/16	Adequate	12
Quality Organisation	Corporate Projects		Medium			10
Quality Organisation	Creditors	Y	Medium	2015/16	Substantial	12
Quality Organisation	Customer services - Contact centre		Medium	2013/14	Substantial	8
Quality Organisation	Debtors and collection agency	Y	Medium	2015/16	Substantial	12
Quality Organisation	Development - Planning compliance		Medium	2015/16	Adequate	8
Quality Organisation	Electoral registration		Medium	2015/16	Adequate	6
Quality Organisation	Human Resource - Workforce planning		Medium	2015/16	Substantial	8
Quality Organisation	ICT - Administration and management		Medium	2015/16	Substantial	8
Quality Organisation	ICT - Assets and Disposals		Medium	2015/16	Adequate	6
Quality Organisation	Members and Committee expenditure		Medium	2015/16	Substantial	8
Quality Organisation	Payroll	Y	High	2016/17	Ongoing	10
Quality Organisation	Payroll - employee benefits and deductions		Medium	2015/16	Substantial	6
Quality Organisation	Payroll - expenses and allowances		Medium	2015/16	Substantial	6
Quality Organisation	System Controls and Assurance		High	New		12
Quality Organisation	Transport - Commercial fleet management		Medium	2015/16	Adequate	6
Quality Organisation	VAT		Medium	2014/15	Substantial	10
	<b>Proposed Operational Audit Days</b>					<b>294</b>
<i>Other</i>	Fraud Work - Investigations and NFI					14
<i>Other</i>	Follow up work and recommendations					11
<i>Other</i>	Contingency and ad hoc advice					14
	<b>Total Productive Audit days</b>					<b>333</b>

## Appendix B: Assurance Ratings:

An assurance rating is applied, when a system or process is reviewed, which reflects the effectiveness of the control environment. The text below is an indication of the different assurance ratings used:

Assurance	Description
Full	There is a sound system of control designed to proactively manage risks to objectives.
Substantial	There is a sound system of control, with further opportunity to improve controls which mitigate minor risks.
Adequate	There is a sound system of control, with further opportunity to improve controls which mitigate moderate risks.
Limited	There are risks without effective controls, which put objectives at risk.
None	There are significant risks without effective controls, which put the objectives at risk. Fraud and/or error are likely to exist

## Appendix C: Fundamental audit plan

This is the proposed plan for internal audit reviews of controls considered fundamental to the Council

System Name	2018/19	2019/20	2020/21	2021/22	2022/23	Current Overall assurance rating
Housing Benefits *	✓	✓	✓	✓	✓	Substantial
Council Tax *	✓	✓	✓	✓	✓	Substantial
Business Rates *	✓	✓	✓	✓	✓	Substantial
Capital Finance Planning & Asset Register	✓			✓		Substantial
Debtors and Collection Agency	✓			✓		Substantial
Creditors	✓			✓		Substantial
Corporate Finance - Budgetary Control		✓			✓	Substantial
Cash & Treasury Management		✓			✓	Substantial
Corporate Finance - Management Accounting System		✓			✓	Substantial
Payroll	✓	✓	✓	✓	✓	Substantial

\* ARP Auditing arrangements in place allow for an audit to be undertaken every year on these services by our ARP Partner authorities.