

Eden District Council
Accounts and Governance Committee
23 February 2017
Internal Audit Annual Plan 2017-2018
Report of the Director of Finance

1. Purpose of the Report

- 1.1 Under the Council's Constitution, approval of the Audit Plan rests with this Committee.

2. Recommendation

The Audit Plan for 2017-2018, see the Appendix, is agreed.
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3. Public Sector Internal Audit Standards (PSIAS)

- 3.1 Proper internal audit practices are those set out in the Public Sector Internal Audit Standards (PSIAS). In drawing up the Plan for 2017-2018, paragraphs 3.3 to 3.8 of the PSIAS application note have been referred to.

4. Scope of Work

- 4.1 Due to the resources of the internal audit service, internal audit work focuses mainly on the audit of systems fundamental to the financial accounts, and high risk areas.
- 4.2 The Fundamental Systems audits help to evidence that the information that feeds into the Council's accounts from the core financial systems is complete and accurate. As such the audits give the Director of Finance the assurance he requires as the officer charged with ensuring proper financial administration. They also inform the Annual Governance Statement. The external auditor cannot rely on the work of internal audit when they give their opinion on the accounts. However, they do see the audit of the Fundamental Systems as an important control. In addition, the fact that fundamental systems audits are undertaken throughout the year are considered to be an important part of the Council's anti-fraud arrangements.
- 4.3 The audit of the shared IT Service is carried out under South Lakeland District Council's Internal Audit Plan. This is because South Lakeland District Council is the lead authority as employer of the staff in the shared service.

5. Audit Objectives and Activities

- 5.1 The key objective of the Plan is to ensure that the Council has an ongoing verification process that can confirm that it has a sound system of internal control. The areas of audit are set out in the appended Plan. The starting point for each audit will be to identify the current system. The system will be tested to ensure it is operating as intended. In particular, the Fundamental Systems will be documented, before testing, in compliance with International Auditing Standards.
- 5.2 The focus of each audit will mainly be on the internal controls of the various services provided by the Council, but in accordance with current best practice, consideration is also given to 'best value' aspects of each service and the priorities and strategic actions included in the Council's Corporate Plan.

6. Risk Assessment

- 6.1 A key element of the Council's Accounts and Audit Rules is formal confirmation from internal audit that internal controls are adequate. Internal audit is, therefore, considered a significant part of corporate control arrangements.
- 6.2 Each programme of audit work takes a risk-based approach, based on appropriate audit standards.

7. Resourcing of an Internal Audit Service

- 7.1 The Council's audit service is provided partly by the in-house Senior Auditor (the internal provider) and partly by bought-in services. From April 2016 the latter has been provided by TIAA Limited. The audits to be covered by the external provider are identified in the Appendix by shading.
- 7.2 The Plan begins by setting out the total number of days available for audit. After allowing for overheads and corporate functions (such as fraud), 210 days are available for audit. 130 are from the in-house auditor and 80 from the bought-in contractor.

8. Determining the Audit Plan

8.1 Fundamental Systems Audits

- 8.1.1 It is proposed to continue with the current approach for the Fundamental Systems. A number of other councils have moved these audits on to a cyclical basis so, for example, undertaking payroll every three years, or undertaking an audit each year but only covering certain aspects so that the whole system is covered on a three year cycle. This approach obviously frees up time to audit other areas. However, as the Council's Chief Financial Officer, the Director of Finance places considerable weight on the Fundamental Systems audits. They give considerable assurance that the Council's financial administration is operating in an effective way with the proper controls in place. Also, the Annual Governance Statement includes the annual review of Fundamental Systems as one of the Council's governance controls.

- 8.1.2 There would then be 79 days available for other audit areas as follows:

	Total Days	Senior Auditor Days	Bought-In Days
Days Available	210 days	130	80
Less: Fundamental Systems Audits*	-140 days	100	40
Available Days	70 days	30	40

*Fundamental Systems are undertaken by:

Senior Auditor

- Payroll
- Creditors / Ordering
- Income Collection
- Sundry Debtors
- Main Accounting System
- Treasury Management / Investments

Bought-in

- Council Tax
- Business Rates
- Benefits

The allocation of 140 days is based on previous experience.

9. Consultancy

- 9.1 The current Plan allocates the balance of the Senior Auditor's time (30 days) to fundamental systems consultancy work. It is proposed to retain this as the Senior Auditor has an in-depth grasp of the Council's financial systems, is a practical person, and is very well regarded by colleagues. In 2016-2017 he has undertaken important consultancy work on cash receipting, sundry debtors and PCI-DSS (Payment Card Industry Data Security Standards).
- 9.2 If the allocation to consultancy is continued into 2017-2018, there is a balance of 40 days (all from the TIAA Limited) to allocate to other audit areas.

10. Allocating Available Audit Days

- 10.1 The Senior Auditor has drawn up an 'audit universe'. This was used by Management Team as a tool to help them select audit areas based on:
- Their view of risk
 - Judgement as to 'added value' of audit
- 10.2 The audit universe is structured on a Portfolio basis in order to try and tie the audit planning process into the way in which the Council's objectives and plans will be undertaken and monitored, that is, the new Council Plan states:
- "The Council Plan will also inform the actions and targets in all our Portfolio Plans. Each of our Portfolios (specific areas of responsibility) has a Portfolio Plan setting out how the services they have responsibility for will be delivered. The actions and targets in the Portfolio Plans will reflect the priorities in the Council Plan. The Portfolio Plans will contain more specific actions, targets and measures of performance, all aimed at delivering the priorities in the Council Plan."
- 10.3 For each area the audit universe sets out risk, governance and other 'sources of assurance'.
- 10.4 By using the audit universe it should therefore be evident how the Audit Plan links to "organisational objectives and priorities". The information recorded will form the basis of compliance with audit standards which state that it is management's responsibility to identify risks relating to their areas of responsibility and ensure appropriate controls are in place to mitigate these and it is internal audit's responsibility to "advise the organisation that these arrangements are in place and operating properly".
- 10.5 The intention of the audit universe is to record all service areas with a summary of the objectives, risks and control processes associated with them. Based on this, Management Team have decided on the areas to which audit resources should be allocated, by identifying areas where controls and processes may be in need of review and/or verifying that controls and procedures are operating properly in areas of key Council priorities. In this way, each agreed audit should "add value". Four audits were selected as follows:
- Delivering Digital Innovation (DDI) Project – this audit will review the management and governance arrangements of the project. It will also look at the progress of the project, comparing it to what was agreed at the outset. Where areas of the project have been implemented, these will be reviewed for security also.

- Licensing – licences are issued by the Council for a number of reasons and fees are payable. The current licensing software package is to be reviewed and renewed as part of the DDI project. It is two years since the service was last subject to audit, so good practice that it be reviewed.
- Disabled Facilities Grants (DFG) and Renovation Grants – these grants form a significant proportion of the Council’s Capital Programme. As such, they involve the payment of significant financial sums to applicants. The audit will review the systems in place for ensuring these are administered securely. Recent Department of Communities and Local Government Guidelines have stated that DFG funding can be utilised for minor adaptations and works as long as they promote prevention, promote independence and delayed transfer of care. This allows the Council to be more creative in the development of proactive initiatives. Consequently, work will begin to review the Council’s DFG policy, within the terms of the relevant Regulatory Reform Order, with a view to developing a new Homes Assistance Policy.
- Heart of Cumbria Limited Arrangements – the Council has agreed to set up its company known as Heart of Cumbria Limited. It is expected to be quarter 4 of 2017-2018 when the audit is scheduled, and that it will be trading involving significant sums. It is considered that it should therefore be subject to audit.

11. Stakeholder Consultation

11.1 Once Management Team had agreed the allocation of audit days, the resulting draft Plan was then consulted on with the external auditor (Grant Thornton), Management Team, TIAA Limited (the external provider for the Plan period) and the Senior Internal Auditor.

12. Policy Framework

12.1 The Council has four corporate priorities which are:

- Decent Homes for All
- Strong Economy, Rich Environment
- Thriving Communities
- Quality Council

12.2 The Plan does not form part of the Budgetary and Policy Framework. However, the audit work set out in it does cover many aspects of the Framework. It therefore has an important role in ensuring the Framework operates effectively.

13. Implications

13.1 Legal

13.1.1 Part 2, Paragraph 6.1 of the Accounts and Audit (England) Regulations 2011 states, “A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.”

13.2 Financial

13.2.1 Any decision to reduce or increase resources must be made within the context of the Council’s stated priorities, as set out in its Council Plan 2015-2019, as agreed at Council on 17 September 2015.

13.2.2 There are no proposals in this report that would reduce or increase resources.

13.3 Equality and Diversity

13.3.1 The Council has to have regard to the elimination of unlawful discrimination and harassment and the promotion of equality under the Equality Act 2010 and related statutes.

13.3.2 There are no implications.

13.4 Environmental

13.4.1 The Council has to have due regard to conserving bio-diversity under the Natural Environment and Rural Communities Act 2006.

13.4.2 There are no implications.

13.5 Crime and Disorder

13.5.1 Under the Crime and Disorder Act 1998 the Council has to have regard to the need to reduce crime and disorder in exercising any of its functions.

13.5.2 There are no implications.

13.6 Children

13.6.1 Under the Children Act 2004 the Council has to have regard to the need to safeguard and promote the welfare of children in the exercise of any of its functions.

13.6.2 There are no implications.

13.7 Risk Management

13.7.1 Risk Management is a process whereby attempts are made to identify, actively control and reduce risk to protect the Council. This covers not only the traditional areas of insurable risk but also the organisational risk that the council faces in undertaking all its activities.

13.7.2 There are no implications.

14. Conclusions

14.1 The Internal Audit Plan for 2017-2018 sets out how the Council intends to direct its audit resources to ensure that there is an effective Internal Audit service.

C W Howey
Director of Finance

Governance Checks:

Checked by, or on behalf of, the Chief Finance Officer	✓
Checked by, or on behalf of, the Monitoring Officer	✓

Background Papers:

- Public Sector Internal Audit Standards - application note
- Comments on the Draft Internal Audit Plan 2017-2018 from the Senior Auditor, Management Team, TIAA Limited Service and Grant Thornton

Contact Officer: Clive Howey
Telephone Number: (01768) 212213

Proposed Internal Audit Plan 2017-2018

Shaded audits are to be carried out by TIAA Limited

Audit	2017-2018	Cycle
Fundamental Systems		
Payroll	23	Annual
Creditors / Ordering	18	Annual
Income Collection	16	Annual
Sundry Debtors	14	Annual
Main Accounting System	21	Annual
Treasury Management / Investments	8	Annual
Fundamental Systems Consultancy	30	Annual
Council Tax	10	Annual
Business Rates	10	Annual
Benefits	20	Annual
Other Services / Systems		
Licensing	10	N/A
Delivering Digital Innovation Project	10	N/A
Renovation and Disabled Facilities Grants	10	N/A
Heart of Cumbria Arrangements	10	N/A
	210	