

Eden District Council
Accounts and Governance Committee
20 February 2020

Internal Audit Annual Plan 2020-2021

Portfolio:	None
Report from:	Director of Finance
Wards:	All Wards
OPEN PUBLIC ITEM	

1 Purpose

- 1.1 To seek approval for the Council's Internal Audit Annual Plan for 2020-2021. Under the Council's Constitution, approval of the Audit Plan rests with this Committee.

2 Recommendation

That the Audit Plan for 2020-2021, attached at Appendix A, is agreed.

3 Report Details

3.1 Public Sector Internal Audit Standards

- 3.1.1 Proper internal audit practices are those set out in the Public Sector Internal Audit Standards (PSIAS). In drawing up the Plan for 2020-2021, paragraphs 3.3 to 3.8 of the PSIAS application note have been referred to.

3.2 Scope of Work

- 3.2.1 Due to the limited 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.
- 3.2.2 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 Chief Finance Officer (s151) the assurance required as the officer charged with ensuring proper financial administration. They also inform the Annual Governance Statement and the Council's anti-fraud arrangements.
- 3.2.3 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.

3.3 Audit Objectives and Activities

- 3.3.1 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.

3.3.2 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.

3.4 Risk Assessment

3.4.1 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.

3.4.2 Each programme of audit work takes a risk-based approach, based on appropriate audit standards.

3.5 Resourcing of an Internal Audit Service

3.5.1 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 Appendix A by shading.

3.5.2 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.

3.6 Determining the Audit Plan

3.6.1 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, Fundamental Systems audits give considerable assurance that the Council's financial administration is operating in an effective way with the proper controls in place. In addition, the Annual Governance Statement includes the annual review of Fundamental Systems as one of the Council's governance controls.

3.6.2 There would then be 108 days available for other audit areas as follows:

	Total Days	Senior Auditor Days	Bought-In Days
Days Available	242	162	80
Less: Fundamental Systems Audits*	-134	-104	-30
Available Days	108	58	50

3.6.3 Fundamental Systems audits undertaken by the Senior Auditor are:

- Payroll / Agency Expenses
- Creditors / Ordering / Procurement;
- Income Collection and associated IT systems;
- Sundry Debtors;
- Main Accounting System; and
- Treasury Management / Investments.

3.6.4 Fundamental Systems audits undertaken which are bought-in are:

- Council Tax;
- Business Rates; and
- Benefits.

3.6.5 The allocation of 134 days is based on previous experience.

3.7 Consultancy / Governance System Reviews

3.7.1 The current Plan allocates the balance of the Senior Auditors time to work

- Oversee National Fraud Initiatives
- A contingency for 15 days for responsive and unplanned works
- 20 days to review risk registers and the management of risk
- 16 days to review external contractor payment processes prior to re-procurement commencing.

3.7.2 Based on this allocation there is a balance of 50 days (all from the TIAA Limited) to allocate to other audit areas.

3.8 Allocating Available Audit Days

3.8.1 The Head of Internal has consulted the Senior Internal Auditor, TIAA Ltd and Management Team to develop a proposal of services for internal audit review. This is based on:

- Their view of risk; and
- Judgement as to the 'added value' of audit.

Factors impacting on the selection include time since the last review and significant changes to policies or regulations. Five audits were selected as follows:

- A review of the larger capital programmes to ascertain appropriate approvals, financial controls and outcomes are delivered. This will factor in procurement processes and a Value for Money assessment against programme objectives
- A review of Cemetery Income and Contractor charges. This is a significant element of income that needs to ensure correlation to the fees and charges schedule and other records
- Legal case management including Land Charges to again ensure appropriate fees and charges are being utilised and any costs that can be recovered are recorded and invoiced
- A review of the Council's IT Cyber and Fraud processes to ensure adequate controls are in place to protect the Authority's Information Databases
- Following on from the current property management review, a full Landlord Compliance test will take place again to ensure our tenants are protected and mitigate risk to the authority.

4 **Policy Framework**

4.1 The Council has four corporate priorities which are:

- Sustainable;
- Healthy, safe and secure;
- Connected; and
- Creative

4.2 This report meets the Sustainable corporate priority.

4.3 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. The audit work is also aligned to the Council's Quality Council corporate priority.

5 **Consultation**

5.2 The draft Plan has been consulted upon with the external auditor (Grant Thornton), TIAA Limited (the external provider for the Plan period) and the Senior Internal Auditor.

6 Implications

6.1 Financial and Resources

6.1.1 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 2019-2023, as agreed at Council on 7 November 2019.

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

6.2 Legal

6.2.1 Section 151 of the Local Government Act 1972 requires every local authority to "make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs.

6.2.2 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."

6.3 Human Resources

6.3. There are no Human Resources implications.

6.4 Statutory Considerations

Consideration:	Details of any implications and proposed measures to address:
Equality and Diversity	There are no implications
Health, Social, Environmental and Economic Impact	There are no implications
Crime and Disorder	The work of internal audit may identify instance of fraud and or corruption which can be referred to the relevant authorities for necessary action.
Children and Safeguarding	There are no implications

6.5 Risk Management

Risk	Consequence	Controls Required
That services do not provide value for money.	Adverse effect on the Council's budget and reputational damage.	The work of internal audit is one of the strands of work for which the Director of Finance is ultimately responsible which can identify such services and recommend appropriate action.
That instance of fraud and corruption are not identified	Reputational damage and financial cost to the Council.	The work of internal audit is one of the strands of work for which the Director of Finance is ultimately responsible which can identify such services and recommend appropriate action.

7 Other Options Considered

7.1 No other options have been considered.

8 Reasons for the Decision/Recommendation

8.1 The Internal Audit Plan for 2019-2020 sets out how the Council intends to direct its audit resources to ensure that there is an effective Internal Audit service.

Tracking Information

Governance Check	Date Considered
Chief Finance Officer (or Deputy)	11 February 2020
Monitoring Officer (or Deputy)	12 February 2020
Relevant Director	Not Applicable

Background Papers: **Public Sector Internal Audit Standards - Application Note**

Appendices: **Appendix A - Proposed Internal Audit Plan 2020-2021**

Contact Officer: **Paul Sutton, Interim Chief Finance Officer**

Proposed Internal Audit Plan 2020-2021

Planned Reviews	
Financial (Fundamental) System Reviews	
Main Accounting System inc Procurement support	20
Payroll / Agency / Expenses	20
Creditors / Ordering / Procurement	20
Income Collection	10
Civica upgrade implementation	10
Sundry Debtors	14
Treasury Management / Investments	10
Council Tax	10
Business Rates	10
Benefits	10
	134
Consultancy Reviews	
Responsive / Unplanned Work / Contingency	15
National Fraud Initiative Overview	7
	22
Governance System Reviews	
Risk Management / Insurance / Risk Registers	20
	20
Risk-Based Audit Reviews	
In-House Auditor	
Leisure Management contract payments - baseline pre procurement checks	5
Recycling / Waste contract payments - baseline pre procurement checks	5
Recycling / Waste contract management review	6
	16
TIAA	
Capital programme - Parish Footway and Leisure renewals programmes	10
Cemetery - Income and contract charges	10
Legal Case Management / Land Charges	10
Cyber / Fraud Arrangements	10
Property Management - Landlord compliance testing inc HoC	10
	50
I.T Reviews	
Undertaken by S.Lakes D.C (Shared Service)	0
	0
Total Planned Days	242
NB: Shading indicates audits undertaken by the bought-in service	