



AUDIT AND GOVERNANCE COMMITTEE

Tuesday 12 March 2019

INTERNAL AUDIT: ANNUAL INTERNAL AUDIT PLAN 2019-20 (AG 06/19)

EXECUTIVE SUMMARY

1. This report presents the proposed combined Internal Audit Plan for Suffolk Coastal and Waveney District Councils (branded East Suffolk) 2019-20 as agreed with the Corporate Management Team. The construction of the Plan involves many factors and drivers and a diagram is incorporated within the Plan, which illustrates the overall methodology.
2. This report is being presented to the Audit & Governance Committee in accordance with the Committee's terms of reference which stipulate that the Committee is to *'approve, (but not direct) internal audit's work plan.'* Also *'to promote the value of the audit process.'*
3. Internal Audit Services acts in accordance with the Accounts and Audit Regulations (2015) and aims to follow the Public Sector Internal Audit Standards (2016) (PSIA) and Local Government Application Note (2013). This report has been prepared in accordance with our Audit Charter.

Is the report Open or Exempt?	Open
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Wards Affected:	All Wards in the District
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Cabinet Member:	Councillor Stuart Lawson Cabinet Member with Responsibility for Resources
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Supporting Officer:	Mrs Siobhan Martin Head of Internal Audit 01394 444254 siobhan.martin@eastsoffolk.gov.uk
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1 PURPOSE OF THE REPORT/PLAN

- 1.1 Internal Audit Services acts in accordance with the Accounts and Audit Regulations (2015) and aims to follow the Public Sector Internal Audit Standards (2016) and Local Government Application Note (2013). This report has been prepared in accordance with our Audit Charter. The Council is required under the Accounts and Audit Regulations to maintain an adequate and effective Internal Audit Service.
- 1.2 This report presents the strategic risk based Internal Audit Plan for 2019-20 as agreed with the Chief Executive and Corporate Management Team.
- 1.3 The Internal Audit work planned for the coming year is aligned to the East Suffolk Business Plan – ‘East Suffolk Means Business’; where the vision is to maintain and sustainably improve the quality of life for everyone growing up in, living in, working in and visiting East Suffolk. Planned and emerging Internal Audit exercises will directly support the good governance and risk management approach to the Councils priorities: Enabling Communities; Economic Growth and Financial Self Sufficiency described in detail in the East Suffolk Business Plan.
- 1.4 The Audit and Governance Committee is responsible for overseeing the application of audit resources and monitoring performance of the audit function.

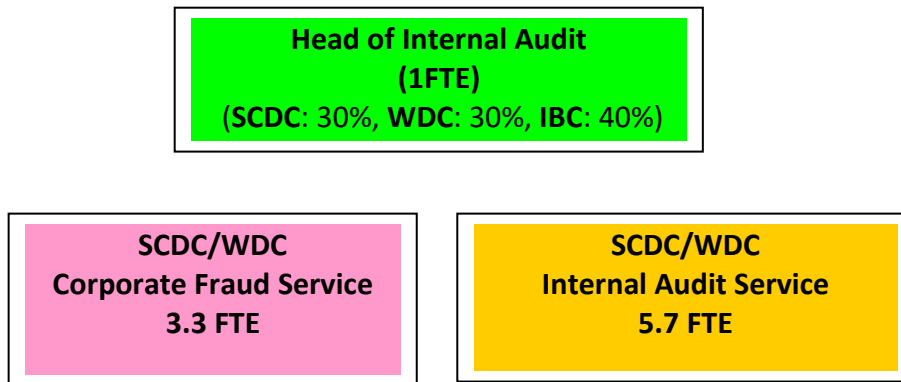
2 INTRODUCTION

- 2.1 The work of the Internal Audit Service is to provide independent assurance and report upon the effective and efficient application of internal controls, governance arrangements and value for money at the Council. All Internal Audit reports form part of the crucial evidence to enable the Chief Executive and Leader of the Council to sign the Annual Governance Statement (the obligatory statement along with the Annual Accounts.) External Audit may also consider Internal Audit work to ensure that system controls are adequate and effective.
- 2.2 Internal Audit work aims to ensure services comply with the Council’s Constitution and Code of Corporate Governance. Internal Audit reports make recommendations to address any weaknesses identified and give direction on how to support continual improvements by providing professional advice and guidance.

3 STRUCTURE AND RESOURCES

- 3.1 Since 1 January 2009, Suffolk Coastal District Council’s (SCDC) Internal Audit Service has been partnered with Waveney District Council with the Head of Internal Audit and an Audit Manager shared between SCDC and WDC.
- 3.2 Since 1 June 2004 SCDC’s Internal Audit Service has been in partnership with Ipswich Borough Council (IBC) with the Head of Internal Audit and an Audit Manager shared with Ipswich Borough Council.
- 3.3 Such partnerships have enabled greater operational efficiency and effectiveness in the delivery of Internal Audit Services and provides the opportunity for each partner to call upon a wider skills base, which can be used to achieve greater flexibility and effectiveness in all areas of audit operations.

3.4 The table below represents the current structure of the Internal Audit Service:



3.5 The Internal Audit Plan is directly linked to the resources available i.e. 5.7 FTE's. An additional 1.3FTE staff are employed by the Council but contracted to provide audit services to Ipswich Borough Council as part of the audit partnership contact. It is anticipated that the resources available will provide 850 productive audit days for 2019-20. Non-productive days are training, administration, holidays and ad-hoc sickness. Also the Head of Internal Audit is the Data Protection Officer and Senior Information Risk Owner for the Councils, and the team support associated work in these areas.

3.6 The service was reviewed in 2016, streamlined and efficiency savings targets achieved. The service is currently sufficiently resourced to be effective and efficient in line with the requirements of the Accounts and Audit Regulations and the PSIAS.

4. PUBLIC SECTOR INTERNAL AUDIT STANDARDS

4.1 Internal Audit Services within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1 April 2013 and were revised on 1 April 2016. The standards require periodic self-assessments and an assessment by an external professional every five years.

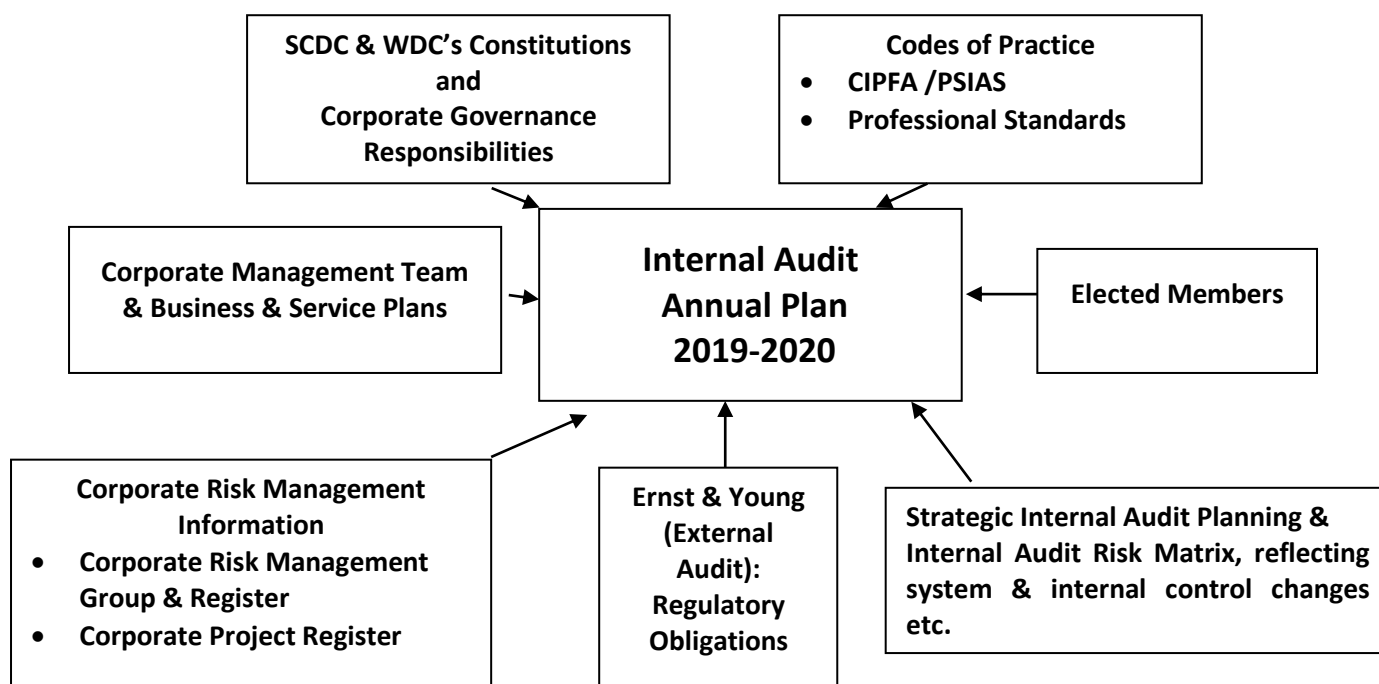
4.2 SCDC and WDC in partnership with Ipswich Borough Council's audit service was reviewed in November 2016 by the Chartered Institute of Public Finance and Accountancy (the main PSIAS assessor in the UK). The review also included checking compliance with the Local Government Advisory Note (LGAN) where this has requirements in addition to those in the PSIAS.

4.3 The review identified no areas of non-compliance within the PSIAS across all three Councils.

4.4 An annual self-assessment was completed during 2018-19 by the Head of Internal Audit which demonstrated continued compliance and highlighted minor improvement points which were reported to the Audit and Governance Committee.

5 SOURCES OF ASSURANCE

5.1 The risk based Internal Audit Plan considers many factors and ensures that all stakeholders' contributions are included. The main drivers used to formulate the Audit Plan are detailed below.



- 5.2 The risk based Annual Audit Plan for 2019-20 is aimed to be a product of all the drivers listed above. Initially developed from Internal Audit’s own Risk Matrix, the Internal Audit planning and assurance process has considered how the Service will be delivered and is aligned to organisational objectives, priorities and risks.
- 5.3 The Head of Internal Audit holds audit planning meetings with the Chief Executive, Strategic Directors and Heads of Service. These meetings enable Internal Audit to develop assurance maps for each service area to identify any national and local issues or emerging risks that the Council may seek to gain assurance over.
- 5.4 The Annual Audit Plan for 2019-20 has been reviewed by the Corporate Management Team. The Council's External Auditors have also been apprised of the Annual Audit Plan for 2019-20. The Annual Audit Plan for 2019-20 aims to meet all professional Standards relating to Internal Audit in the Public Sector and should be treated as a working document, subject to amendment, as necessary, to reflect changing corporate conditions or demands as well as reflecting any changes or refinement in the Council’s Corporate Risk Register.
- 5.5 Where other external assurance providers may have undertaken relevant assurance work, Internal Audit will seek to rely on the work of these where professional standards would make it appropriate to do so e.g. Health and Safety Executive, Her Majesty’s Revenues and Customs, External Audit i.e. Ernst and Young LLP, Local Government Ombudsman (not an exhaustive list).
- 5.6 The creation of East Suffolk District Council from the two existing Councils has been and remains an important strategic driver. Internal Audit Services will play a role in assisting service areas to achieve progress in this respect, move towards change and secure even greater efficiency and improvement.
- 5.7 Each year the Audit and Governance Committee is given the opportunity to request Internal Audit to undertake specific reviews or to provide guidance on specific concerns. A total of 15 days has been allocated to allow for this in 2019-20.

- 5.8 A detailed report on all the work undertaken in the year 2018-19 will be provided to the Audit & Governance Committee at a future meeting, including any significant issues arising from the work performed.

6. INTERNAL AUDIT STRATEGY

- 6.1 The Internal Audit Service must be adequate, effective and efficient in order to help the Councils meet their objectives. The Internal Audit Service is clearly positioned within each Council's Constitution. The Internal Audit Charter is deemed the Internal Audit Strategy. The Audit Charter was reviewed 2018-19 so as to comply with the PSIAS.

- 6.2 Internal Audit Services apply a strategic risk based assessment process to develop annual plans. Multiyear budgets are considered along with an assessment of the necessary skills required to deliver the service. Modern methodologies and technologies are utilised to perform reviews and provide advice to drive corporate improvements across the Council. Reviews and support listed within the Annual Internal Audit Plan are aligned to the Council's objectives demonstrating the strategic nature of the Internal Audit Service. These reviews can be evaluated to assess Internal Audit and Council wide performance.

7. THE INTERNAL AUDIT ANNUAL PLAN 2019-20

- 7.1 This risk based Internal Audit Plan details the work that will provide assurance to the Council in terms of the adequacy and effectiveness of financial and management controls in the areas under review.

- 7.2 The risk based Internal Audit Plan is influenced by the resources made available by the Council for Internal Audit work. A careful balance has to be achieved in terms of keeping audit costs at a realistic level, whilst recognising that there is a minimum level of coverage that must be undertaken to ensure good governance and internal controls are in operation. In this respect, the Internal Audit Plan for 2019-20 is considered to be a realistic plan of action.

- 7.3 Internal Audit work consists of consultancy reports, advice notes, probity reports (economic, effective and efficiency reviews), along with value for money reports and computer audit reports, all agreed at the scoping stage of each exercise.

- 7.4 A risk assessment model is employed to score the relative risks of each of the identified systems in the "audit universe", which consists of all the potential auditable areas identified either by Internal Audit, or by other stakeholders and includes systems or other activity identified from risk registers. The scoring methodology requires that a number of risk attributes are assessed, including (not exhaustive) the following:-

- Key System i.e. materially affecting the general ledger
- Risk maturity of the organisation
- Length of time since last audit
- Impact on the organisation, based on reputational and fiduciary risks
- Issues identified through previous Internal Audit reviews/the Corporate Risk Register
- Likelihood of occurrence, based on soundness of internal control
- Potential for fraud and corruption
- Size of budget/number of employees
- Evidenced compliance with law, regulations

- Concerns raised by Stakeholders

- 7.5 The risks are then weighted to provide a level of relative risk for each system. The relative risk determines the likelihood of inclusion in the plan for the year is high, medium or low risk. Current resources facilitate focus primarily upon high risk areas in the 2019-20 Internal Audit Plan.
- 7.6 The combined Internal Audit Plan 2019-20 in relation to all high risk rated areas is listed in the following table:

Responsible Officer/ Head of Service	Area of Activity	Comments ¹	Link to Corporate Risk Register & Business Plan ²	Link to Public Sector Internal Audit Standards	Proposed Quarter (Number of budgeted days) ³
Corporate Management Team (CMT)	Corporate Governance and Risk Management	Best practice advocate, Independent professional advice. Responsible for Code of Corporate Governance. (C)	Failure of the delivery of the East Suffolk Business Plan (D2) & Medium Term Financial Plan (C2) Failure of Financial Governance (D2) Failure of Service Planning (C2)	2110 – Governance 2110.A1 – Ethics 2120 – Risk Management	Throughout the year (30)
CMT	Annual Governance Statement (AGS)	Responsible for AGS production, ensure adherence to CIPFA, SOLACE and other good practice guidance. (C)	Failure of the delivery of the East Suffolk Business Plan (D2) & Medium Term Financial Plan (C2) Failure of Financial Governance (D2) Failure of Service Planning (C2)	2110 – Governance 2120 – Risk Management	Q1/2 (25)
CMT	New Council	Advice, guidance and consultation on the development of East Suffolk Council. (P)	Failure of the delivery of the East Suffolk Business Plan (D2) & Medium Term Financial Plan (C2) Failure of Financial Governance (D2) Failure of Service Planning (C2)	2110 – Governance 2120 – Risk Management	Throughout the year (20)
CMT	Data Protection	Compliance with Data Protection laws. (P)	Failure to comply with GDPR (D2)	2130 - Control	Throughout the year (160)

Responsible Officer/ Head of Service	Area of Activity	Comments¹	Link to Corporate Risk Register & Business Plan²	Link to Public Sector Internal Audit Standards	Proposed Quarter (Number of budgeted days)³
CMT	National Fraud Initiative	Participation in mandatory exercises and the identification of fraud through data matching exercises with the Cabinet Office. (P)	Failure of governance (D2)	2120.A2 – Managing the risk of fraud	Throughout the year (50)
CMT	Members Request	As requested and agreed with the Audit and Governance Committee. (P)	TBC in line with requests received	2110 - Governance	TBC (15)
CMT	Public Sector Internal Audit Standards (PSIA)	Self assessment of compliance with PSIA	Failure of financial governance (D2) Failure of Internal Controls (D3)	2110 - Governance	Q1/2 (10)
CMT	Payroll	Payroll - Key control and audit follow-up testing where control weaknesses have been identified. (KS)	Failure of financial governance (D2) Failure of Internal Controls (D3)	2130 - Control	Q3 (10)
CMT	Consultancy and Special Investigations	Provide professional advice for emerging issues and any required financial, whistleblowing or employment investigations. (C)	Failure of programme and project delivery (D2) Failure of Financial Governance (D2)	2130 – Control 2120 – Risk Management	Throughout the year (30)
CMT	Ethics & Culture	Independent review of the governance arrangements supporting the Councils ethical framework. (P)	Cross cutting	2110 – Governance 2110.A1 – Ethics 2120 – Risk Management	Q2 (10)
CMT	Procurement	Review of the compliance with the new East Suffolk Corporate Procurement Regulations. (P)	Cross cutting	2130 – Control	Q2/3 (20)
CMT	Recruitment and Lone Working	Review of governance arrangements and controls in respect to recruitment and lone working processes. (P)	Failure of governance (D2)	2110 – Governance	Q3 (20)

Responsible Officer/ Head of Service	Area of Activity	Comments ¹	Link to Corporate Risk Register & Business Plan ²	Link to Public Sector Internal Audit Standards	Proposed Quarter (Number of budgeted days) ³
Chief Finance Officer and S151 Officer S Taylor	Key Fundamental Systems ⁴ : Accounts Payable Accounts Receivable Treasury Management General Ledger Income (Cash & Banking) Capital Accounting	Cyclical Key control testing, review of flowcharts and audit follow-up testing (P).	Failure of financial governance (D2) & Medium Term Financial Plan (C2)	2130- Control	Q3/4 (100)
	Key Fundamental Systems: National Non Domestic Rates Housing Benefits Council Tax Bailiff Services	Internal Audit will review the systems and controls in place for NNDR across all 7 Councils in the Anglia Revenues Partnership as part of the Service Level Agreement signed in 2017/18. Housing Benefits and Council Tax will be reviewed by St Edmundsbury Borough Council Internal Audit Service and Bailiff Services by Fenland District Council Internal Audit Service.	Failure of financial governance (D2) Failure of Service Delivery Contracts/Partnerships (C2)	2130-Control	Q3/4 (60)
	Criminal Finances Bill	Independent review of compliance with the HMRC guidelines. (P)	Failure of financial governance (D2)	2130 - Control	Q1 (10)
	Commercial Rents	Independent review of the effectiveness of the strategy in place plus the systems in operation, including collection and recording. (P)	Failure of financial governance (D2)	2130 – Control	Q1 (20)
	Budgetary and Data Control	Assurance over accuracy and completeness of Navision data following creation of new Council. (CA) Review of the governance arrangements and the controls in relation to budgetary control. (P)	Failure of financial governance (D2)	2130 - Control	Q1 & Q2 (20)

Responsible Officer/ Head of Service	Area of Activity	Comments¹	Link to Corporate Risk Register & Business Plan²	Link to Public Sector Internal Audit Standards	Proposed Quarter (Number of budgeted days)³
Head of ICT A Carey	System Access Controls	Review of the governance arrangements and controls in relation to user access. (CA)	Failure of governance (D2)	2130 - Control	Q3 (20)
	Payment Card Industry (PCI) follow up	Review of improvements to ensure PCI compliance	Failure of financial governance (D2)	2130 - Control	Q1/2 (2)
	Physical Security (ICT)	A review of the arrangements in place in respect to ICT hardware. (CA)	Failure of financial governance (D2) Failure of Service Delivery Contracts/Partnerships (C2)	2130 - Control	Q1/2 (10)
Head of Legal and Democratic Services H Slater	Declarations of Interest	A review of the compliance with the Code of Conduct.	Failure of governance (D2)	2110 – Governance 2110.A1 – Ethics 2120	Q1 (10)
	Licensing	A review of compliance with the new regulations governing licensing introduced in 2018. (P)	Failure of governance (D2)	2130 – Control	Q2 (20)
Head of Operations K Blair	Car parks	A review of the contract management arrangements. (P)	Failure of financial governance (D2)	2130 – Control 2110 – Governance	Q2 (15)
	Asset Management	A review of progress being made since the issue of the Asset Management Status Internal Audit Report of 2017/18. Plus	Assets not used to full potential (C1)	2130 – Control 2110 – Governance	Q1 (12) Q2/3 (8)

Responsible Officer/ Head of Service	Area of Activity	Comments¹	Link to Corporate Risk Register & Business Plan²	Link to Public Sector Internal Audit Standards	Proposed Quarter (Number of budgeted days)³
		review of asset ICT modules used at the Council. (P) and (CA).			
	Contract Management	Follow up and assurance testing on the progress being made following the Internal Audit Report issued in 2017/18. (P)	Failure of Service Delivery Contracts / Partnerships (C2)	2130 – Control 2110 – Governance	Q1 (20)
	Health & Safety Contract Management	Follow up and assurance testing on the progress being made following the Internal Audit Report issued in 2017/18. (P)	Failure of Service Delivery Contracts / Partnerships (C2)	2130 – Control 2110 – Governance	Q2 (18)
	Organic Waste Recycling (Green Waste)	Independent review of the effectiveness of the systems in operation, including cash collection and recording. A review of the new integrated software between WDC and Norse. (P) and (CA).	Failure of financial governance (D2).	2130 - Control	Q1/2 (20)
Head of Housing Services TBC	Key Fundamental Systems: Housing Rents Housing Repairs and Maintenance (planned maintenance)	Key control assurance testing and audit follow-up testing where control weaknesses have been identified.	Failure of financial governance (D2)	2130 – Control	Throughout the Year (40)
	Disabled Facilities Grant (DFG)	Controls assurance to feed into Suffolk County Council certification (P)	Failure of financial governance (D2)	2130 - Control	Q2 (10)
Head of Environmental Service and Port Health	Fly-tipping	Review of the effectiveness of the governance arrangements and controls to ensure the Council is meeting its legal obligations. N196 Returns. (P)	Failure of financial governance (D2)	2130 - Control	Q1 (20)
P Gore	ICT Port Health	Review of the governance and controls in relation to ICT at Port Health. (P)	Failure of financial governance (D2)	2130 - Control	Q3 (10)

Responsible Officer/ Head of Service	Area of Activity	Comments¹	Link to Corporate Risk Register & Business Plan²	Link to Public Sector Internal Audit Standards	Proposed Quarter (Number of budgeted days)³
			Failure of Service Delivery Contracts/Partnerships (C2)		
Head of Communities N Rickard	Economic Community Budgets	Advice and guidance on governance arrangements and controls in the new East Suffolk arrangements (P)	Failure of financial governance (D2)	2130 - Control	Throughout the year (5)

¹ Work performed will range from consultancy (C), probity (P), computer audit (CA), or key systems (KS) which feed into the general ledger; all detailed in each audit brief.

² Subject to change given findings during reviews and other emerging risks, which may need prioritising?

³ Both the number of days and quarter are subject to change throughout the year.

⁴ Where possible we will use Computer Aided Techniques; to extract our testing across the whole population. Continuing liaison with EY will ensure no duplication of testing where we are able gain assurance from their work and vice versa in line with the IA / EA protocol.

8. HOW DOES THIS RELATE TO EAST SUFFOLK BUSINESS PLAN?

- 8.1 The Audit and Governance Committee is directly responsible for supporting good governance arrangements and practices at the Council, which underpin the Council's entire strategic and operational workings including the East Suffolk Business Plan. The Internal Audit Plan of work provides independent fact based evidence to Senior Management and the Audit and Governance Committee upon the actual effectiveness of Council activities, which form the East Suffolk Business Plan.

9. FINANCIAL AND GOVERNANCE IMPLICATIONS

- 9.1 Internal Audit reports, advice and recommendations all aim to create and foster a robust corporate governance foundation to support sustainable services for all stakeholders. As a consequence, the Internal Audit Service aims to mitigate the risk of losses arising from error, irregularity and fraud. In addition efficiency, effectiveness and economy reviews form part of the work undertaken, and this represents a fundamental function in delivering the Council's corporate governance responsibilities.
- 9.2 The Local Government Act 1972 and the Accounts and Audit Regulations 2015 require principal local authorities to '...undertake an adequate and effective internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control.'
- 9.3 The implications and benefits of agreed recommendations produced by the Internal Audit Service contribute to the Council's overall objectives by improving controls and processes, which contribute towards efficient and effective management of services.

10. OTHER KEY ISSUES

- 10.1 This report does not require an Equality Impact Assessment, a Sustainability Impact Assessment or a Partnership Impact Assessment.

11. CONSULTATION

- 11.1 Internal consultation with the Corporate Management Team and external consultation with the Council's External Auditor has taken place. All matters raised have been incorporated within the Internal Audit Plan for 2019-20.

12. OTHER OPTIONS CONSIDERED

- 12.1 No further options have been considered.

13. CONCLUSION

- 13.1 Internal Audit will continue to provide regular reports to the Audit and Governance Committee on its activities and any significant issues arising.
- 13.2 The Head of Internal Audit issues Internal Audit Reports to the Chief Executive, Members of the Audit and Governance Committee(s), Cabinet Member for the Service area under review, External Audit and the Council's Section 151 Officer in accordance with best practice. Such distribution ensures that all key findings, recommendations and learning points are available

for consideration and enables good governance. In addition all Members have access to issued Internal Audit reports held on the Members' confidential section of the Council's Intranet.

13.3 The Chairman of the Audit and Governance Committee and any other elected Member have free access to the Head of Internal Audit and at least one private meeting per year will be held between the Audit and Governance Committee and the Head of Internal Audit.

13.4 The Annual Audit Plan for 2019-20 has been considered by the Chief Executive and Corporate Management Team and aims to meet all the Professional Standards and the Codes of Practice relating to Internal Audit in the Public Sector. It should be viewed as a working document, subject to amendment as necessary to reflect changing corporate conditions or demands, as well as reflecting any changes or refinement in the Council's Corporate Risk Register.

14. REASON FOR RECOMMENDATION

14.1 To support the Council's overall governance arrangements and to ensure that the Audit and Governance Committee fulfils its terms of reference by reviewing the appropriateness of the proposed 2019-20 risk based Annual Internal Audit Plan for internal audit activity across the Council.

RECOMMENDATION

That the Annual Internal Audit Plan 2019-20 be commented on and approved.

BACKGROUND PAPERS

Please note that copies of background papers have not been published on the Council's website but copies of the background papers listed below are available for public inspection free of charge by contacting the relevant Council Department.

Date	Type	Available From
2016	East Suffolk Business Plan 2015-2023	Head of Internal Audit
Feb 2018	Strategic Service Plans	
Feb 2018	Corporate Risk Register	
April 2013 & 2016	Public Sector Internal Audit Standards	