

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

18 April 2019

Internal Audit Plan 2019/20

Report of the Internal Audit Consortium Manager

This report is public

Purpose of the Report

- To present to Members for consideration and agreement the Internal Audit Plan for 2019/20.

1 Report Details

- 1.1 A key requirement of the Public Sector Internal Audit Standards is that a periodic risk based plan should be prepared that is sufficiently flexible to reflect the changing risks and priorities of the organisation. The risk based plan should be fixed for a period of no longer than one year, should outline the assignments to be carried out, their respective priorities and the estimated resources needed.
- 1.2 The internal audit plan is linked to NEDDC's corporate plan objective to provide customers with an excellent service. Audit reviews report on the operation of controls in place and recommend improvements.
- 1.3 A note explaining the role, purpose and some of the terminology used in the internal audit plan is attached at Appendix 1.
- 1.4 An annual report summarising the outcome of the 2018/19 internal audit plan will be presented to this Committee after the year-end.
- 1.5 A summary of the internal audit plan for 2019/20 is shown below and the detailed plan is shown as Appendix 2.

Internal Audit Plan 2019/20

Summary	Audit Days
Main Financial Systems	118
Other Operational Audits	91
Computer / IT Related	20
Fraud and Corruption	11
Corporate / Cross Cutting	104
Location / Regularity	5
Special Investigations & Contingency	25
Audit Committee / Client Liaison	15
Rykneld Homes	97
Grand Total	486

- 1.6 The plan has been prepared taking into account the following factors:-
- The organisational objectives and priorities;
 - Local and national issues and risks;
 - The requirement to produce an annual internal audit opinion;
 - The organisations assurance framework;
 - An update of the internal audit risk assessment exercise covering the financial control and other procedures subject to audit;
 - The fraud risk register;
 - The Council's strategic risk register and
 - The views of the Assistant Director Finance and Revenues and Benefits and the Strategic Alliance Management Team.
- 1.7 Resource availability has been based on the Consortium Business Plan for 2019/20. The plan allocates 486 days to North East Derbyshire District Council which is the same allocation as for 2018/19.
- 1.8 A copy of the audit plan is provided to the Council's external auditor to assist in co-ordination of work programmes.

2.0 Conclusions and Reasons for Recommendations

- 2.1 To ensure that a risk based audit plan is adopted and to determine the internal audit work programme for 2019/20.
- 2.2 To comply with the Public Sector Internal Audit Standards.

3 Consultation and Equality Impact

- 3.1 None.

4 Alternative Options and Reasons for Rejection

4.1 Not Applicable.

5 Implications

5.1 Finance and Risk Implications

5.1.1 Financial – the internal audit budget for 2019/20 has been approved by the Joint Board and includes a contingency to cover any unforeseen circumstances etc.

5.1.2 Risk management issues – no formula exists that can be applied to determine internal audit coverage needs. However, as a guide the minimum level of coverage is that required to give an annual evidence-based opinion on internal controls. The level of coverage provided by the proposed 2019/20 internal audit plan will be sufficient upon which to base an opinion.

5.2 Legal Implications including Data Protection

5.2.1 None

5.3 Human Resources Implications

5.3.1 None

6 Recommendation

6.1 That the Internal Audit Plan for 2019/20 be agreed.

7 Decision Information

Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: <i>BDC: Revenue - £75,000 <input type="checkbox"/></i> <i>Capital - £150,000 <input type="checkbox"/></i> <i>NEDDC: Revenue - £100,000 <input type="checkbox"/></i> <i>Capital - £250,000 <input type="checkbox"/></i> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	No
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	No
Has the relevant Portfolio Holder been informed	N/A

District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	All

8 **Document Information**

Appendix No	Title
1	Internal Audit Plan – Background Note
2	Draft Internal Audit Plan 2019/20
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
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AGIN 5(b) – Internal Audit Plan 2019/20

INTERNAL AUDIT PLAN**BACKGROUND NOTE****1. Definition of Internal Audit**

Internal Audit is defined in the Public Sector Internal Audit Standards as:

“.. an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

2. The Purpose of Internal Audit

Internal audit is not a substitute for management. It is the purpose of internal audit to assist and support management by appraising the arrangements and procedures established.

There is also a statutory requirement for internal audit in local government contained in the Accounts and Audit Regulations 2015. These regulations require the authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking in to account public sector internal auditing standards and guidance.

3. The Difference between Internal Audit and External Audit

External audit is completely independent of the authority. Much of the external auditors’ work is determined by statutory responsibilities. Internal audit's terms of reference are determined and approved by management.

However, there is nevertheless considerable scope for co-operation to avoid duplication of work and to make maximum use of audit resources.

4. The Scope of Internal Audit Work

One of the essential elements for effective internal auditing is that the internal auditor should adequately plan, control and record their work.

To determine priorities and to assist in the direction and control of audit work the internal auditor will prepare a plan based on a risk assessment.

The audit plan is divided into the following sections: -

- **Main Financial Systems**

This covers the fundamental accounting and income collection systems of the authority such as payroll, creditor payments, council tax etc. Most of these systems are reviewed on an annual basis due to their importance.

- **Other Operational Audits**

Audits to be undertaken in services include a review of the controls and procedures in place for areas such as Taxi Licensing and Refuse Collection.

- **IT Related**

Topics in this area of the plan include a review of network security. IT issues are also covered within most areas examined.

- **Fraud and Corruption**

Audits specifically related to the prevention of fraud and corruption are covered in this area of the plan. This year a review Gifts and Hospitality will take place. It should be noted that a significant number of other audits include an anti-fraud element e.g. income audits.

- **Cross Cutting Issues**

This area of the plan includes audit subjects that cover all services or are corporate Issues. Examples include work on health and safety and procurement.

- **Special Investigations**

A contingency provision is included in the plan to cover the investigation of irregularities or cases of suspected fraud and other problems.

5. **Delivering the Internal Audit Service**

A three year strategic audit plan is compiled based on an internal audit risk assessment of auditable areas. This risk assessment takes into account the following factors:

- Materiality – the amount of funds passing through the system
- Control Environment / vulnerability – assessed level of control based on previous audit findings
- Sensitivity – profile of the system in relation to customer service
- Management concerns – any specific issues relating to the operation of the system e.g. Council's Strategic Risk Register

Using a scoring system, audits are then categorised as High, Medium or Low risk. This ranking is then used to compile the annual audit plan.

The areas of audit work set out in the agreed plan are split into individual audit assignments.

An audit assignment can involve:

- preparation of system notes and a review/analysis of system controls;
- extraction of background information;
- extraction and testing of sample transactions and controls;
- notes of interviews and meetings.

All work undertaken is recorded on detailed working papers. To ensure that all areas have been covered and appropriate conclusions reached, all working papers are independently reviewed.

A report on the findings and recommendations arising from the audit is sent to the Chief Executive, appropriate Director and to the Assistant Director Finance and Revenues and

Benefits (as Client Officer) at the conclusion of the audit. A response to the recommendations is requested within a set time.

A summary of internal audit reports issued each quarter is reported to the Audit and Corporate Governance Scrutiny Committee and an Annual Report is submitted after the end of the year detailing the outcome of the audits completed.

Appendix 2

North East Derbyshire District Council Internal Audit Plan 2017/18 – 2019/20							
		2017/18	2018/19	2019/20	Priority	Last Review	Risk Factor
	Main Financial Systems						
	Main Accounting/Budgetary Control	15	0	15	M	Biennial	Failure to produce a reliable set of accounts, no control over spending, (Strategic Risk 2)
	Payroll	15	20	12	H	Annual	Employees are paid incorrectly, there are ghost employees in the system
	Creditor Payments	15	20	15	H	Annual	Incorrect or fraudulent payments are made
	Debtors	10	10	15	H	Annual	Loss of income, fraud
	Treasury Management	10	15	10	H	Annual	Misappropriation of funds, poor investment decisions
	Cash and Banking	18	0	18	M	Biennial	Loss of income, theft
	Council Tax	10	10	0	H	Annual	Loss of income, fraud
	Non Domestic Rates	20	10	10	H	Annual	Loss of income, fraud
	Housing / Council Tax Benefits	20	20	18	H	Annual	Reputational damage, fraud
	VAT	0	8	0	M	16/17	Incorrect VAT treatment could lead to financial penalties
	Capital Accounting	0	0	5	M		Assets may not be properly accounted for
	Total Main Financial Systems	133	113	118			

North East Derbyshire District Council Internal Audit Plan 2017/18 – 2019/20

		2017/18	2018/19	2019/20	Priority	Last Review	Risk Factor
	Other Operational Audits						
	Business Centres	0	12	15	M	15/16	Poor Admin, loss of income
	Central Garage/Transport	10	7	15	H	17/18	Poor Fleet Management, fraud, theft
	Cemeteries	10	0	0	L	17/18	Loss of income/reputational risk
	Commercial Waste	0	10	0	L	15/16	Loss of income
	Disabled Facilities Grants	10	0	0	M	17/18	Inability to deliver/fraud
	Elections	0	0	10	L	11/12	Incorrect payments
	Environmental Health Food Hygiene	8	0	0	L	17/18	Public Health risk
	Environmental Health - Other Licences	0	8	0	L	13/14	Loss of income/ safeguarding issues
	Environmental Health - Taxi Licences	8	0	10	M	17/18	Safeguarding issues, safety issues
	E.H Misc income – Pest Control Dog Warden	0	8	0	L	14/15	Loss of income
	Expenses and Allowances	0	10	0	L	14/15	Incorrect / fraudulent payments
	Fly tipping	0	4	0	L	New	Reputational Damage
	FOI/Env info Regs	0	8	0	L	13/14	Non- compliance with FOI Act
	Final Accounts	5	0	0	M	Annual	Incorrect payments, fraud
	Industrial Property Rents/Periodic Income	0	10	14	M	15/16	Loss of income, fraud
	Insurance	0	10	0	M	15/16	Wrong cover levels and type, fraudulent claims
	Land Charges	0	10	0	L	11/12	Loss of income
	Leisure Reviews	17	16	15	M	Annual	Loss of income, theft
	Members Allowances	10	0	0	L	17/18	Incorrect payments/fraud (Strategic Risk 8)
	Other Operational Audits						
	Northwood Housing Building Company	0	10	0	M	NEW	Financial and Reputational risk, poor

North East Derbyshire District Council Internal Audit Plan 2017/18 – 2019/20

		2017/18	2018/19	2019/20	Priority	Last Review	Risk Factor
							governance arrangements (Strategic Risk 8)
	Planning Fees	0	10	0	M	15/16	Loss of income/ fraud
	Refuse Collection	0	0	12	L	15/16	Reputational Damage
	Right to Buy (Joint with RHL)	0	5	0	M	16/17	Fraud
	Shared Ownership (Joint with RHL)	0	5	0	M	NEW	Fraud
	Section 106	0	13	0	M	16/17	Loss of income/fraud/ reputational damage, failure to deliver projects
	Total Operational Audits	78	156	91			
	Computer and IT Related						
	Cyber Security / Network Security/systems security	15	8	10	H	18/19	Attack on Council systems / reputational damage (Strategic risk 4)
	Disaster Recovery	0	8	0	M	15/16	Failure to restore data in a timely manner
	IT Inventory / Disposal of equipment	0	8	0	L	08/09	Data breach, theft
	Members IT Equipment / mobile phones	0	0	10	L		Loss of equipment/ data protection
	Total Computer and IT related	15	24	20			
	Rykneld Homes	97	97	97	H		Partnership fails (Strategic Risk 7)

North East Derbyshire District Council Internal Audit Plan 2017/18 – 2019/20

		2017/18	2018/19	2019/20	Priority	Last Review	Risk Factor
	<i>Cross Cutting Areas</i>						
	Asset Management Arrangements	10	0	0	M	17/18	Poor value for money, assets not fit for purpose
	Corporate Governance and AGS	10	2	2	H	Annual	Poor Governance (Strategic Risk 8)
	Data Protection	10	0	0	M	17/18	Mis- use of data, large fines (Strategic Risk 3)
	Emergency Planning	0	0	10	L	16/17	Public Safety (Strategic Risk 4)
	Financial Advice / Working Groups	20	12	12	H	Annual	Appropriate controls not in place
	Health and Safety	0	10	10	H	16/17	Risk of injury, death (Strategic Risk 8)
	IR35	0	0	5	L	New	Not deducting the correct amounts from payments
	Performance Management/Corporate Targets	10	0	10	M	17/18	Poor Governance (Strategic Risk 8)
	Procurement/ credit cards	18	0	15	M	17/18	Fraud, poor value for money
	Recruitment and Selection	0	10	0	M	14/15	Fraud, poor appointments
	Risk Management	0	0	10	M	16/17	Failure to identify and mitigate risks (Strategic Risk 8)
	Safeguarding	10	0	8	M	17/18	Public safety, reputational risk (Strategic Risk 10)
	Servicing Council Gas & electric appliances	0	8	0	M	N/A	Safety of workforce and public
	Transformation Agenda	0	0	10	H	New	Fails to make the savings anticipated (Strategic risk 2)
	Use of Agency Staff/consultants	0	0	12	L	15/16	Not achieving value for money

North East Derbyshire District Council Internal Audit Plan 2017/18 – 2019/20

		2017/18	2018/19	2019/20	Priority	Last Review	Risk Factor
	Total Cross Cutting Areas	88	42	104			
	Fraud and Corruption	17/18	18/19	19/20	Priority	Last Review	Risk Factor
	Fraud Modules	10	0	0	L	17/18	Fraud
	Gifts and Hospitality	0	0	6	L		Fraud and Corruption
	Money Laundering	0	4	0	L	12/13	Fraud
	National Fraud Initiative	5	0	5	M	17/18	Fraud
	Total	15	4	11			
	Location / Regularity						
	Petty Cash	5	5	5	L	Annual	Theft
	Total	5	5	5			
	Special Investigations/Contingency	40	30	25	H	Annual	Fraud, loss of income
	Audit Committee / Client Officer Liaison	15	15	15	H	Annual	Non compliance with Public Sector Internal Audit Standards
	Planned Total Days	486	486	486			