Newark and Sherwood District Council
Draft Internal Audit Plan 2018/19

What we do best ….

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

….. And what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third sector

CONTENT

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Introduction

1. This report summarises the proposed work of Internal Audit for 2018/19. The aim is to give a high level overview of areas we are likely to cover during the year – giving you an opportunity to comment on the proposals.

2. The audit plan has been developed to enable us to respond to changes during the year. Whilst every effort will be made to deliver the plan, we recognise that we need to be flexible and prepared to revise audit activity – responding to changing circumstances or emerging risks. The plan is therefore a statement of intent – our liaison meetings with senior management will enable us to firm up audit activity during the year.

3. Internal Audit is a statutory service required under the Account and Audit Regulations 2011 (amended 2015). We provide independent assurance designed to add value and improve how the Council operates. We help the Council achieve its priorities and objectives by bringing a systematic, disciplined approach to evaluate and improve the management of risk, control and governance processes.

4. Our work is carried out in conformance with the UK Public Sector Internal Audit Standards. These require that the scope of Internal Audit covers the whole range of the Council activities – seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the Council which has been established to:

   ▪ Achieve strategic objectives

   ▪ Ensure effective and efficient operational systems and programmes

   ▪ Safeguard assets and interests of all kinds (including risks that relate to work it undertakes through partnerships)

   ▪ Ensure the reliability and integrity of financial and operational information

   ▪ Ensure economic, efficient and effective use of council resources

   ▪ Ensure compliance with established policies, procedures, laws, regulations and contracts.

Our Internal Audit Strategy

5. Our Internal Audit strategy has been developed to take into account management's assessment of risk including those set out in strategic and operational risk registers) and the assurances present on the Council's critical systems and key projects (the Council's assurance map).

6. We also use our own risk assessment against each activity assessing their significance, sensitivity and materiality – ranking the activity as high, medium or low risk. This allows us to prioritise possible areas to be included in the plan on the basis of risk. A copy of our risk assessment methodology is attached in Appendix A.

7. Our aim is to align our work with other assurance functions – seeking to look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council.

8. By adopting this approach it is possible to give the Council comfort that there is a comprehensive risk and assurance framework with no potential gaps. Internal Audit are then able to use our risk assessment and the assurance map to target resources to minimise duplication of effort through sharing and coordinating activities with management and other management oversight functions.

9. We have identified the level of assurances in place by using the "Three lines of assurance" model – See Figure 1 below.

10. Figure 2 below shows the overall assurance levels on your critical service areas / activities and risks.

11. We intend to leverage assurance from these other sources to enable the Head of Internal Audit to provide their Annual Audit opinion on the Council's governance, risk and control framework for 2018/2019.
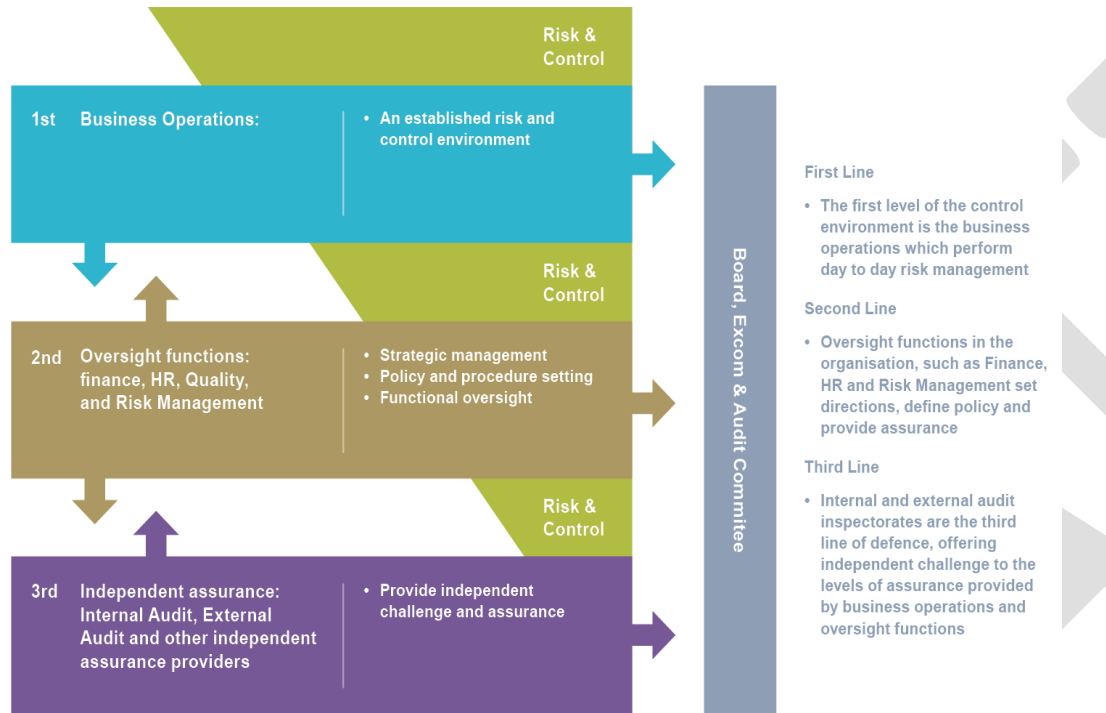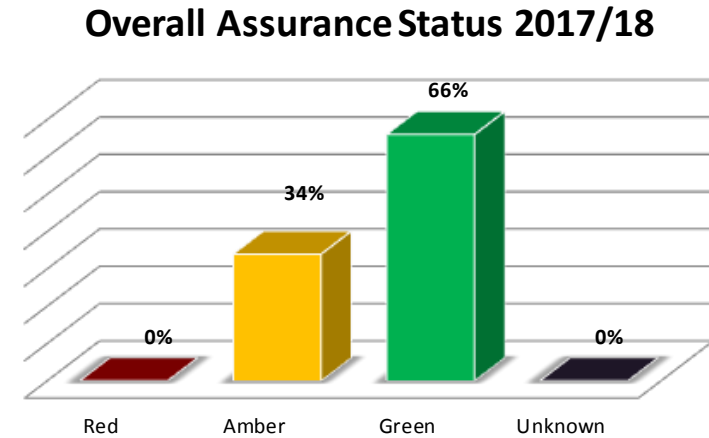
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Figure.1. The three lines of assurance model

Figure 2 – Your Overall Assurance Status @ December 2017

First Line

- The first level of the control environment is the business operations which perform day to day risk management

Second Line

- Oversight functions in the organisation, such as Finance, HR and Risk Management set directions, define policy and provide assurance

Third Line

- Internal and external audit inspectorates are the third line of defence, offering independent challenge to the levels of assurance provided by business operations and oversight functions

12. We co-ordinate our work on key financial systems with the Councils External Auditors, KPMG. We work to a joint working protocol which sets out where the External Auditor seeks to place reliance on our work. This ensures that the Council gets the most out of its combined audit resource – keeping audit fees low.

13. Using our Internal Audit Strategy we have developed the 2018/19 Internal Audit Plan balancing affordability, quality and assurance requirements. Our planning considers those audits required to be reviewed on a cyclical basis as part of our due diligence assessment, this is provided in Appendix D. The plan contains 295 days. The type of areas included in the plan for 2018/19 is shown in Figure 3 with the proposed audits in Appendix B. A schedule of audits will be developed with management once the plan has been approved.

Figure 3 – Analysis of Internal Audit Resource (showing % split)
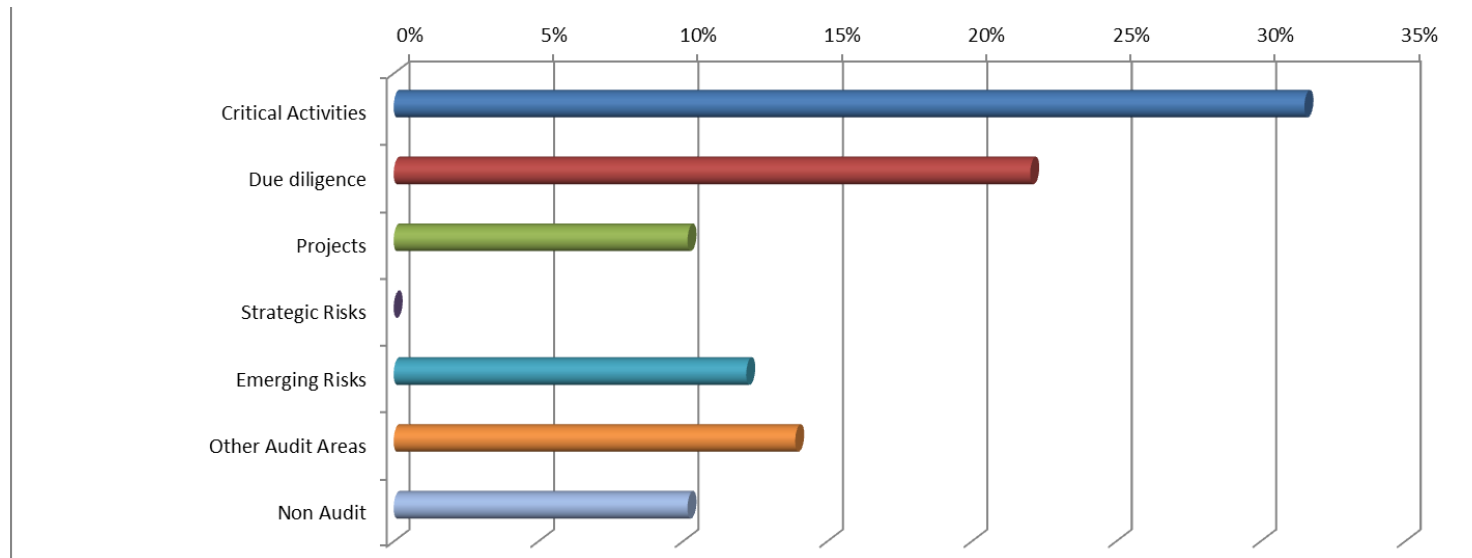
14. The Combined Assurance Status reports provides management and members with insight over the current levels of assurance over the Council's critical activities, key projects and risks however the Audit and Accounts Committee may wish to specifically request assurance information directly from management for those items not in the Internal Audit Plan. Analysing the assurance map identified a number of specific critical and medium risk activities – which we do not have the resources to review – these are shown in Appendix C.

15. Assurance Lincolnshire operates in conformance with standards of best practice applicable to Internal Audit – in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. Our audit team offers a wide depth of knowledge and experience gained across different organizations. We promote excellence and quality through our audit process, application of our Quality Assurance Framework (Appendix E) and our training and development programme.

16. Our Quality Assurance Framework includes all aspects of the Internal Audit Activity – including governance, professional practice and communication.

17. Our Internal Audit Charter sets out the nature, role, responsibilities and authority of the Internal Audit service within the Council – this was approved by the Audit and Accounts Committee in 2016 following the revision of the Standards.

18. Internal Audit remains sufficiently independent of the activities that it audits to enable auditors to perform their duties in such a way that allows them to make impartial and effective professional judgements and recommendations.

19. We use a number of ways to monitor our performance, respond to feedback and seek opportunities to improve. Evidence of the quality of our audits is gained through feedback from auditees and the results of supervision and quality assurance undertaken as part of our audit process.

20. Our performance measures are set out below in Figure 4 for information:

Figure 4: Our performance measures

Performance Indicator	Target
Percentage of plan completed	100% (revised plan)
Percentage of key financial systems completed	100%
Percentage of recommendations agreed*	100%
Percentage of recommendations implemented*	100%
Timescales	• Draft report issued within 10 working days of completing audit • Final report issued within 5 working days of closure meeting/receipt of management responses • Period taken to complete audit – 80% completed within 2 months from fieldwork commencing to the issue of the draft report.
Client feedback on Audit (average)	Good to excellent

* Achievement of the performance measures on recommendations agreed and implemented are not within our control. These are reported so the Audit Committee can see what actions management have taken. The details of any recommendations not agreed will be included in the executive summary and report to Committee.

21. Our internal audit fee is determined through the pricing schedule within the Service Level Agreement. Before commencement of any additional work requested an estimate will be provided of the costs.

Area	2017/18	2018/19
Internal Audit	£93,060	£80,370*

* Excludes Newark and Sherwood Homes and 10 days paid for in 2016/17 for the Emergency Planning audit which was postponed.

Annual Internal Audit Opinion

22. We are satisfied that the level and mix of resources - together with the areas covered in the plan - will enable the Head of Internal Audit to provide their annual internal audit opinion.

Staffing

23. The core team who will be delivering your Internal Audit plan are:

Name	Grade	Telephone	Email
Lucy Pledge	Head of Internal Audit	01522 553695 07557 498932	lucy.pledge@lincolnshire.gov.uk
John Sketchley	Team Leader	01522 553652	john.sketchley@lincolnshire.gov.uk
Amanda Hunt	Principal	01636 655336	amanda.hunt@newark-sherwooddc.gov.uk amanda.hunt@lincolnshire.gov.uk
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The team will be supported by specialists from Assurance Lincolnshire and our wider audit frameworks as and when appropriate.

An indicative staff mix delivering our Internal Audit service to you is shown below:

Grade	2018/19 (days)	Grade Mix (%)
Head of Internal Audit	8	3%
Team Leader / Audit Manager	24	8%
Principal Auditor	129	44%
Senior Auditor	134	45%
Audit Officer	0	0%

Appendix A – Planning Risk Assessment

Value / Volume

This assessment is based on either the cost to the council, the volume of transactions that the activity is handling or a combination of the two

0 – Not material
1 – Minor importance (up to £100k[1] budget and approx. weekly transactions)
2 – Important (up to £1m[2] budget and up to daily transactions)
3 – Material (over £1m budget and multiple transactions daily)

Audit rating

0 – recent review no significant findings (full / substantial)
1 – Recent review with findings (limited)
2 – Not recently reviewed (3 years)
3 – Recent review – number of significant findings (No assurance)

Sensitivity / Profile (Risk)

This assessment is about the impact if things went wrong, how much interest would there be and how much would this impact on reputation

0 – low (internal system)
1 – Medium profile
2 – High profile

Significance

This assessment reflects how important the activity is to the authority and its residents
0 – not significant
1 – Minor significance
2 – Significant
3 – Very significant

Changes to people / systems

0 – no changes
1 – Minor changes
2 – Significant changes
3 – New system or team

Other assurance

Other assurances we have identified during the mapping process and how much reliance we can place on these.

0 – high level of assurance – e.g. Snr mgmt. oversight / management reporting / activities / external review / scrutiny
1 – Moderate level of assurance – management assurance
2 – Low level of assurance – new area – assurance unknown – emerging risk

Risk score		Risk score		Risk score	
1		7		12	
2		8		13	
3	Low	9	Med	14	High
4		10		15	
5		11			
6					

[1] £500k for County

[2] £5m for County

Draft Internal Audit Plan 2018/19

Audit Area	Assurance Sought	Days	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Critical Service Areas Those areas identified by senior management as having the most impact on successful delivery of priorities or whose failure could result in significant damage to reputation, financial loss, impact on people (risks). The outcome of the assurance mapping exercise – together with our assessment of risk – will enable us to identify potential areas where an independent audit would add value.							
Domestic Refuse	The service provided is efficient and effective with any income due to the Council being collected and accounted for. Action is taken to resolve customer complaints which are monitored and used to improve performance.	8	10	G		✓	
Street cleansing	An efficient and effective service is in place which ensures that streets are maintained at the level of cleanliness expected.	6	9	A		✓	
Business Continuity	Follow-up review to assess the progress being made on the implementation of the recommendations made and ownership has been assigned.	5	12	A	✓		
Emergency Planning	Arrangements are in place which enable the Council to effectively manage an emergency planning situation.	8	12	A	✓		
Human Resources	Processes for the Public sector exit payments and the implications of the National Minimum wage and any cascading affect are considered within the Pay Policy and implemented when required.	8	8	G	✓		
Economic Development	The Council has an economic development strategy in place which sets out it's objectives and actions. The projects/schemes/processes used to achieve the objectives are robust and authorised.	8	9	G	✓	✓	
HRA Self Financing Business Plan	There is a business plan in place which is up-to-date, based on sound assumptions and reported.	10	10	G			

Strategic Asset Management	There is an up-to-date Strategic Asset Management plan in place and reported. All Council assets are recorded and maintained by the Council or in accordance with any agreement.	8	**10**	**A**			
Environmental Protection	Licenses are issued where statutorily required with income being collected and accounted for. Inspections are carried out and documented in accordance with legislation.	10	**10**	**G**		✓	
IT Governance	The Governance arrangements of the IT service ensure that there are processes in place and roles and responsibilities are clearly identified.	6	**6**	**G**			
IT Infrastructure	Review of various aspects of the Council's IT infrastructure which may include security of IT assets; network security; physical security; firewall security; remote access portals / virtual private networks; operating system reviews; web security; internet and email security; anti-virus and malware; penetration testing;public services network; and incident management.	8	**12**	**G**			
NSDC Companies	Review of the Governance and processes in place for the Council's wholly owned companies.	8					✓
Sub Total		**93**					

Draft Internal Audit Plan 2018/19

Audit Area	Assurance Sought	Days	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Due Diligence Those systems that support the running of the organisation and ensure compliance with key corporate policies and legal requirements – the 'business as usual' systems. How often Internal Audit reviews these activities depends on previous assurance opinions, when the area was last examined and if there has been any significant changes to the system or senior management. For financial systems we also consider the requirements of External Audit to ensure that the organisation makes the best use of its combined audit resources.							
Key Control Testing	Delivery of key control testing to enable Head of Internal Audit to form an opinion on the Council's financial control environment.	30	N/A	N/A		✓	
Counter Fraud	Strategies and policies are in place for the prevention and detection of fraud.	8	8	G	✓	✓	
Creditors	There are effective processes and procedures in place which ensure that payments are made to the correct suppliers in a timely manner and in accordance with the Council's Financial Procedure Rules.	8	8	A			
Payroll	The processes and procedures in place ensure that only authorised payments are made to staff and members in a timely manner.	8	10	G			
Running of elections and Referendums	There are arrangements and policies in place which ensure that the Council effectively manages the election and referendum processes and payments in accordance with the electoral commission guidelines.	5	8	G	✓		
Assurance	The responsibilities of the assurance function are clearly defined and embedded enabling the provision of accurate and up-to-date reporting of compliance and monitoring of corrective measures.	6	7	A			
Sub Total		**65**					

Audit Area	Assurance Sought	Days	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Projects Those supporting delivery of a corporate objective / priority.							
Project/Programme Management	There are effective arrangements in place which ensure that all projects are recorded, allocated responsible officers/teams and overseen allowing an overarching view of capacity and identifying any benefits or efficiencies.	10	**12**	**G**	✓	✓	
Development Company	There is an action plan in place for the establishment of the Company and governance arrangements which follow best practice. The establishment of the Company is authorised.	10		**A**		✓	
Commercialisation	There is a clear strategy and action plan in place covering the Council's commercial aspirations and this conforms with the relevant legislation.	10		**A**		✓	
Sub Total		**30**					

10

Strategic and Emerging Risks
To enable Internal Audit to respond to changes during the year, we will meet regularly with Senior Management to agree which areas to focus our audit assurance work.

The following areas have been identified through our risk assessment and on the assurance map as possible areas to focus audit activity.

Brexit Preparation and understanding the risks and opportunities	The Council is aware of the potential implications of Brexit and keeps abreast of these as the process progresses. These implications are identified within any strategic planning for the Council and it's wholly owned companies.	8					
Workforce changes and succession planning within the Council including changes within the management team	The Council has a workforce plan in place which meets the changing needs of the Council and the demographic and skills of staff. There is also a plan in place for succession planning of key staff identifying positions which hold the greatest risk if vacant i.e. specialist knowledge, statutory responsibility, lone workers etc.	8			✓		
Review of IR35	There are processes in place which ensure that the Council identifies all those affected by IR35 and payments are made in the correct manner.	6					
S106 Funding	There are effective processes in place for the receipt and spending of S106 monies.	6				✓	
Cyber Security	The Council has arrangements in place to safeguard it from a cyber security attack. If it does suffer an attack there are effective processes to contain it and reduce it's affect on the Council's business.	8			✓		
Sub Total		**36**					

Draft Internal Audit Plan 2018/19

Other Relevant Areas	Assurance Sought	Days	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Other relevant areas Combined Assurance Status Report - Our aim is to give Senior Management and the Audit Committee an insight on assurances across all critical activities and key risks, making recommendations where we believe assurance needs to be stronger.							
Combined Assurance	Updating the assurance map and completing the Combined Assurance report.	20			✓		✓
Contingency	As discussed, none to be included.	0					
Follow-ups	Follow-up of recommendations made for the progress report and on a sample basis.	10					✓
Gilstrap	Independent Examination of the Gilstrap accounts in accordance with S145 of the Charities Act 2011.	1					✓
Mansfield Crematorium	Completion of the audit of the Mansfield Crematorium Accounts	5					✓
Newark Cattlemarket	Completion of the rent calculation for 2016/17	5				✓	✓
Sub Total		**41**					

Non-Audit		Days
Advice and liaison		15
Annual Report		3
Audit Committee		10
Review IA Strategy and Planning		2
TOTAL		**30**

Grand Total	Days
Internal Audit	**295**

Assurance LINCOLNSHIRE

Auditable Areas	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Financial strategy, budget preparation and financial modelling	There is a financial strategy in place which informs the budget preparation and financial modelling. The arrangements in place for budget preparation and financial modelling are sound and comply with the Financial Regulations	**Medium**	**Amber**	✓	✓	
Land charges	There are effective arrangements in place for the administration of applications and collection of monies. The register is kept up-to-date and the information provided is accurate.	**Medium**	**Amber**			
National Civil War Centre	The Centre is managed effectively maximising income and ensuring the security of the items on display and in it's custody.	**Medium**	**Amber**		✓	
Newark Cattlemarket	The arrangements in place for the management of the cattlemarket ensure that the income is collected in accordance with the lease and the terms of the lease are adhered to. The council ensures that the current use and lease supports it's priorities on regeneration for the town.	**Medium**	**Amber**		✓	
Energy/carbon management	The Council has processes in place to monitor it's energy usage and an action plan to reduce it as far as possible in accordance with government guidelines.	**Medium**	**Amber**			
Housing options advice and assistance and provision of temporary accommodation (fulfilling statutory responsibilities) includes homelessness strategy and private tenant scheme	There is a homelessness strategy in place which adheres to legislation. The unit has in place processes which ensure that homelessness is prevented wherever possible through the provision of advice and other approved schemes. There is effective management of the hostels.	**Medium**	**Amber**		✓	

Projects						
Community and Activity Village	The project is managed effectively to ensure that the contractor delivers.	**Medium**	**Amber**		✓	
Castle Gate House	The project is managed effectively, meeting the requirements of the grant.	**Medium**	**Amber**			
Emerging Risk						
Funding Changes	There are plans in place which reflect current funding and these are amended for known or predicted changes as soon as possible.	**Medium**	**Amber**	✓	✓	
		Medium	**Amber**		✓	
Partnerships						
Collaboration Agreement	There are plans in place which will ensure that the objectives set out within the agreement are achieved.	**Medium**	**Amber**	✓	✓	✓
Building Control	There are effective monitoring arrangements in place which ensure that the residents of the district are getting the service expected and included within the agreement.	**Medium**	**Amber**			

Appendix D – Current Cyclical Due Diligence Pattern

System	Opinion	Last audited	Assurance Map Rating	Risk Score	System Changes	Current Cyclical Pattern		
						Year 1 2018/19	Year 2 2019/20	Year 3 2021/22
Financial Due Diligence								
Income Collection including Cash Receipting*	Indicative - Substantial	2017/18	**Amber**	**Medium**	Cashless			✓
Bank*	Indicative - Substantial	2017/18	**Amber**	**Medium**	New bank			✓
Budgetary Control/Management	High	2015/16	**Amber**	**Medium**	No		✓	
General Ledger/Financial Reporting	Effective	2014/15	**Amber**	**Medium**	New management staff		✓	
Budget prep and financial strategy	High / Substantial	2015/16 2013/14	**Amber**	**Medium**	New management staff		✓	
Creditors*	High	2015/16	**Amber**	**Medium**	New management staff	✓		
Debtors*	Substantial	2015/16	**Green**	**Medium**	No		✓	
Payroll*	Substantial	2013/14	**Green**	**Medium**	New management staff	✓		
Treasury Management*	Some Improvement Needed	2013/14	**Green**	**Medium**	New management staff		✓	
Property, Plant and Equipment*	Substantial	2016/17	**Green**	**Medium**	New management staff		✓	
Council Tax*	High	2015/16	**Green**	**Medium**	No		✓	
NNDR*	Ongoing	2016/17	**Green**	**Medium**	No			✓
Benefits*	Substantial	2016/17	**Amber**	**Medium**	No			✓
Other Due Diligence								
Procurement	Indicative – Limited In progress	2015/16 2017/18	**Green**	**Amber**	Legislative/ Electronic			✓
VAT/Tax	Substantial	2015/16	**Green**	**Low**	New management		✓	

System	Opinion	Last audited	Assurance Map Rating	Risk Score	System Changes	Current Cyclical Pattern Year 1 2018/19	Year 2 2019/20	Year 3 2021/22
			Green		staff			
Insurance	High	2017/18	Green	Medium	New management staff			✓
Grants Received	New		Amber	Medium	New management staff		✓	
Counter Fraud	Substantial	2016/17	Amber	Medium	New staff	✓		✓
Risk management - Process	Substantial In progress	2015/16 2017/18	Green	Amber	No			✓
Project/Programme Management	No opinion In progress	2015/16 2017/18	Green	High	New Process	✓		
Financial regulations & management	Ongoing	2015/16	Green	Medium	Regulations updated		✓	
Equality & Diversity	Substantial	2015/16	Green	Low	No		✓	
Health & Safety	Some Improvement Needed In progress	2014/15 2017/18	Amber	Low	No			✓
Code of Corp Governance	Substantial In progress	2013/14 2017/18	Green	Low	No			✓
Information Governance	Some Improvement Necessary Indicative - High	2014/15 2017/18	Green	Medium	New legislation coming in			✓
Partnerships	Advisory report	2015/16	Green	Medium	No		✓	
Corporate planning	High	2015/16	Amber	Low	No		✓	
Business Continuity	BC – Advisory Indicative - Limited	2016/17 2017/18	Amber	High	New staff and process	✓		
Emergency Planning	Substantial	2012/13	Amber	High	New staff and process	✓		
Human Resources	High	2016/17	Green	Medium	Change in legislation	✓		
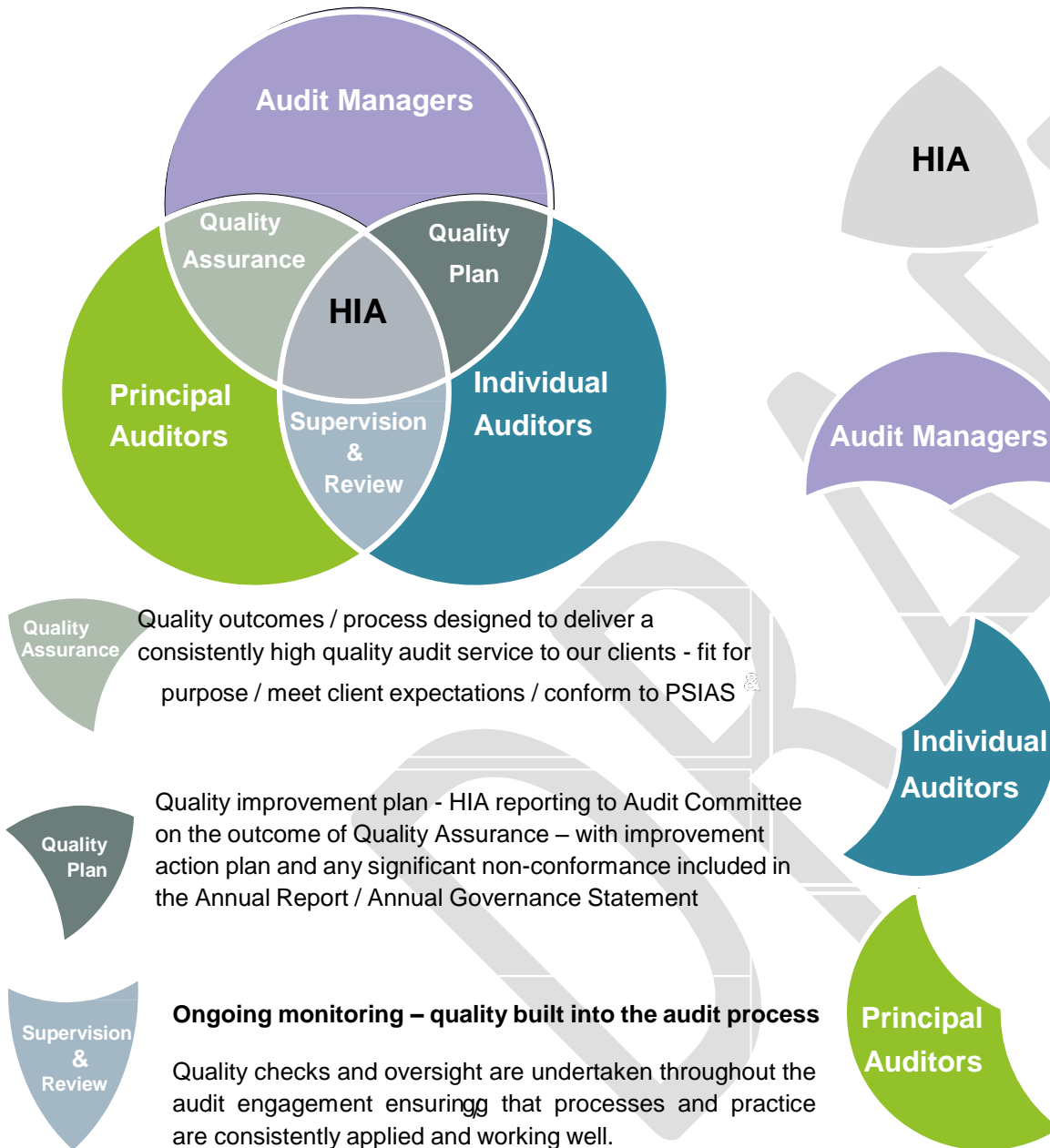
Annual self- assessment

- Head of Internal Audit - develop & maintain Quality Assurance Improvement Programme (QAIP) & improvement action plan

- Focus on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards

- Arrange an External Assessment – co-ordinated with Audit Committee (planned for 2015)

Periodic quality assurance assessments

- Obtain periodic assurance that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Provide HIA with quarterly highlight reports on outcome of reviews

HIA

Audit Managers

Individual Auditors

Quality Assurance
Quality outcomes / process designed to deliver a consistently high quality audit service to our clients - fit for purpose / meet client expectations / conform to PSIAS

Quality Plan
Quality improvement plan - HIA reporting to Audit Committee on the outcome of Quality Assurance – with improvement action plan and any significant non-conformance included in the Annual Report / Annual Governance Statement

Supervision & Review

Ongoing monitoring – quality built into the audit process

Quality checks and oversight are undertaken throughout the audit engagement ensuringg that processes and practice are consistently applied and working well.

- Conduct all audit engagements in accordance with audit practice standards / PSIAS
- Behave at all times in accordance with the Code of Ethics / Code'of Conduct
- Promote the standards and their use throughout the Internal Audit activity
- Commitment to delivering quality services

Principal Auditors

- Obtain on-going assurance that that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Undertake engagement supervision and review

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