

# Internal Audit Plan

2016/17

**D R A F T**

## Background

1. The Accounts and Audit Regulations 2015 requires the Council to have an effective Internal Audit Function which would provide an opinion on the adequacy and effectiveness of financial control, as well as to provide reasonable assurance on the Council's overall governance and internal control processes. This includes the arrangements for the Annual Governance Statement, the review of the effectiveness of internal audit and the management of business risks.
2. This requires an annual internal audit plan which:
  - Draws on effective co-operation with External Auditors and other external review agencies, from which the public may gain assurance regarding the effectiveness of the Council's system of internal control.
  - Provides Councillors, the Chief Executive, the section 151 Officer, and other senior managers with an overall opinion on the status of the Council's governance arrangements, including internal control and risk management.
  - Supports the Chief executive in fulfilling his obligations under Section 151 of the 1972 Local Government Act and the Accounts and Audit Regulations 2011, to ensure the Council operates safe and efficient financial and management information systems.
  - Enables the Council to place assurance on the work of Internal Audit in fulfilling its obligations under the Accounts and Audit Regulations 2015, Regulation 4, to establish proper practices for the publication of an Annual Governance Statement; and Regulation 6 to review the effectiveness of the internal audit function.
  - Conducts audit reviews of the Council's risk management, internal control, and governance arrangements in a way that takes full account of the Council's objectives and risks.
  - Aims to improve the Council's risk management, internal control, and governance arrangements by providing line management with practical recommendations arising from audit work; including consultancy and advice and information as necessary or on request.
  - Delivers an audit service that meets the Public Sector Internal Standards 2013 and relevant guidance issued by CIPFA.

## Internal Audit's objectives

---

SEVENOAKS DISTRICT COUNCIL  
ANNUAL AUDIT PLAN 2016/17

---

3. The internal audit function is provided through a shared services arrangement with Dartford Council which came into force in April 2010. Its remit is set out in the Internal Audit Charter. The objective of the team is to provide relevant services for both Councils. However, this plan deals with the team's work for Sevenoaks District Council only, regarding the provision of Internal Audit Services, in fulfilment of the Council's section 151 responsibilities and its obligations under the Accounts and Audit Regulations 2015. To this effect, the objective of the team's work in this area is to give an assurance to the Council on the effectiveness of the overall governance, risk management and internal control processes of the Council.
4. In recognition of the statutory requirement, it is the responsibility of Internal Audit to review, appraise and report upon:
  - The soundness, adequacy, and application of financial and other management controls.
  - The extent of compliance with, relevant and financial effect of, established policies, plans and procedures.
  - The extent to which the organisation's assets and interests are accounted for and safeguarded from losses of all kinds arising from:
    - Fraud, bribery, corruption and other offences
    - waste, extravagance, and inefficient administration, poor value for money and other causes.
  - The suitability and reliability of financial and other management data developed within the organisation.
  - The effectiveness of the Council's risk management framework

### **Proposed Audit Techniques**

5. To fulfil our responsibility we propose to adopt the following techniques. The relevant technique adopted will depend on the nature and scope of each audit review:

#### *Risk-based audit*

Risk-based auditing takes account of the Council's strategic and operational objectives, and evaluates through audit testing the management of risks to achievement of these objectives, thereby providing an opinion on the quality of internal control within a system. Recommendations for improvements in control are proposed proportionate to the impact and likelihood of existing risks.

#### *Systems-based audit*

---

SEVENOAKS DISTRICT COUNCIL  
ANNUAL AUDIT PLAN 2016/17

---

Where appropriate, Audit may undertake wider documentation, evaluation and testing of financial operational and management information systems providing an opinion as to the adequacy of control and offering suggestions and advice to enable strengthening of systems weaknesses and assist in improving the effectiveness of controls.

Systems based auditing provides high quality assurance on management controls for those systems evaluated externally.

Our systems-based audit work is based on the CIPFA System Control Matrices. The matrices draw on the approach, standards, and guidance of a variety of audit and regulatory bodies, including the Audit Commission.

#### *Financial/Probity Reviews*

Examination of financial records for compliance with agreed policy, regulations, and procedures.

#### *Investigation of Irregularities*

We will undertake enquiries into cases of discovered or reported irregularity including, where required, liaison with other investigatory bodies, such as the National Fraud Initiative (NFI). These usually lead to the enhancement of risk management activities within the Council, and strengthening of internal controls.

#### *Advice and Information*

We offer advice, information and assistance to all levels of management on internal control, governance and risk management.

#### *IT audit*

IT audit is a specialist area, to this effect we will seek to buy in technically qualified and experienced agency staff, or liaise with other Kent Councils for assistance in providing this service for any relevant aspects which requires technical expertise.

#### *VFM audit*

Value for money considerations will be factored into our approach where relevant and appropriate. This would enable us to determine whether managers are making use of the opportunities available to them for obtaining good value for money, especially within the current austerity environment

### **Audit Approach**

---

SEVENOAKS DISTRICT COUNCIL  
ANNUAL AUDIT PLAN 2016/17

---

6. In order to make best use of staff resources and to maximise the team's effectiveness, the need for audit reviews in individual areas, is considered based on a risk assessment, which evaluates:
    - materiality
    - the inherent risk associated with the activity (high risk activities are those which involve access to cash or complex activities where errors, loss or fraud could arise)
    - the controls in place to prevent and detect losses and errors
    - knowledge from previous audit reviews
    - Legal or regulatory compliance
  7. This risk assessment is then translated into an annual operational plan, which sets out the areas to be covered in the current year, taking into account resource constraints.
  8. In compiling the Plan for 2016/17 we have taken into account:
    - the internal Audit Strategy and Internal Audit Charter
    - the financial risk assessment of the Council's activities
    - strategic risks assessments
    - shared services and partnership arrangements
    - discussions with senior officers
    - brought forward work from 2015/16
    - the incidence of irregularities over the past year
    - resources available
    - significant changes arising from external and internal pressures
    - organisational changes within the last 12 months
    - the results of external audit work, or external regulatory assessments from other review agencies
    - the Public Sector Internal Audit Standards and relevant professional guidance were applicable
  9. **The Plan for 2016/17**
-

SEVENOAKS DISTRICT COUNCIL  
ANNUAL AUDIT PLAN 2016/17

---

The table on Annex 1 to this report sets out details of the reviews which would be undertaken during 2016/17 and a summary of the scope of each review. As part of the process we carry out an annual review of key financial systems. These are usually systems with high inherent risks, usually areas of major income and expenditure where a failure to manage risks effectively might result in material financial loss, or significant damage to the Council's reputation. The reviews are intended to ascertain the arrangements management have in place to manage operational or business risks and to give an assurance regarding their effectiveness. Where the audit opinion has remained "Good" over the last two years, it is proposed to carry out a scaled down review, which would incorporate only key controls; aspects not covered in previous reviews, or areas which may have given rise to concerns since the previous audit review. This approach is consistent with the risk based audit approach inherent in the Council's internal audit strategy.

*[See Annex 1 - attached for details of reviews proposed for 2016/17] In addition to the programmed reviews, the resource plan also includes work in the following aspects:*

***Arrangements to prevent fraud and corruption***

---

<b><i>audit area</i></b>	<b><i>review objectives</i></b>
Contracts	To check that contract payments are only made in accordance with contract terms and when properly authorised.
Cashing up	To check that officers are able to account for all income received by them on the day of the cashing up.
Housing Benefits	To check the robustness of the process to prevent and detect fraud in accordance with National Fraud Initiative requirements.
Special investigations	To carry out investigations into suspected frauds, losses etc in accordance with the Fraud Response Plan.

***Follow up of recommendations made in previous audit reports***

Audit reports	To follow up recommendations made in previous reports, to confirm that agreed action has been implemented effectively within the agreed time scales.
---------------	--

---

SEVENOAKS DISTRICT COUNCIL  
ANNUAL AUDIT PLAN 2016/17

---

**Available Resources**

12. A resource plan is set out on Annex 2 to this report

**Internal Audit Performance**

13. During 2016/17, the team will continue to work in compliance with the Public Sector Internal Audit Standards and professional guidance issued by CIPFA.
14. The following seven performance indicators relating to the delivery of the audit plan are proposed and are consistent with current professional benchmarks:

	<i>Measure</i>	<i>Target 2016/17</i>
1	<i>Percentage of internal audit time spent on direct activity</i>	<i>80% of available time.</i>
2	<i>Percentage of Final Reports issued within 15 working days of completing field work</i>	<i>95 % following feedback meeting</i>
3	<i>Percentage of audits completed within allocated time.</i>	<i>90% of audits achieved within allocated time.</i>
4	<i>Percentage of audit briefs issued within 10 days of audit start date.</i>	<i>90% of audits</i>
5	<i>Client satisfaction with audits carried out</i>	<i>95% client satisfaction as indicated by the responses to the post audit questionnaires.</i>
6	<i>Value to the Council - Percentage of audit recommendations agreed and implemented by management</i>	<i>95% of audit recommendations accepted and completed within the agreed timescale.</i>
7	<i>Ability to delivery effective assurance</i>	<i>100% of planned work to be completed to Draft report Stage by 31 March 2017</i>
8	<i>Percentage of Feedback Delivered within 35 days of commencement of Field Work</i>	<i>90% of planned reviews</i>

**Reporting Protocol**

15. Internal audit work undertaken is reported to clients (Service Managers, Heads of Services and Chief Officers), the culmination of the year's work being an annual report to the Audit Committee. Our reports provide an
-

SEVENOAKS DISTRICT COUNCIL  
ANNUAL AUDIT PLAN 2016/17

---

overall audit opinion as to the adequacy of the control environment within the area examined. The annual report will contain an overall opinion on the adequacy of internal control, governance and risk management within the Council.

*Audit Opinion*

16. The audit opinions are formed following discussions with offices/management, observation of working practices, and the assessment and testing of systems and compliance. This is to ascertain whether key controls are in place and whether they are being complied with, or whether there are compensating controls, which provide the same level of overall control and protection against identified risks. New Audit opinions are proposed for 2016/17. These are set out on Para 6.14 of the Internal Audit Strategy, which is also included with the papers in this pack.
17. We aim to involve auditees at key stages of the audit process and to ensure their agreement to audit findings and recommendations. The table below sets out how auditees will be involved in the audit process this year. There are no changes to the process from last year.

<b>Audit stage</b>	<b>Involvement</b>
Agreement of brief at the start of the audit	Head of Service/Chief Officer
Feedback and discussion of main findings arising from an audit	Service Manager/Head of Service
Agreed report	Chief Executive Chief Financial Officer Chief Officer as appropriate Head of Service Service Manager
Audit satisfaction questionnaire completion	Head of Service/Service Manager as appropriate
Half yearly progress reports	Strategic Management Team and Audit Committee
Annual Report Annual Plan	Strategic Management Team and Audit Committee

**Audit Recommendations**

---

SEVENOAKS DISTRICT COUNCIL  
ANNUAL AUDIT PLAN 2016/17

---

18. We will continue to report recommendations by highlighting the significance of each item in relation to risk and materiality. Thus as a guide, recommendations will be graded as follows:

**High** - Fundamental weaknesses in the system or process under review

**Medium** - System weaknesses which leave the system open to minor risks

**Low** - Desirable but non-threatening improvements

---