



## South Lakeland District Council

Audit Strategy and Annual Internal Audit Plan

**2019/20**

March 2018

## Overview

### Introduction

The Audit Plan for 2019/20 has been informed by an updated audit risk assessment to ensure that planned coverage for the year is focussed on the key audit risks, and that the coverage will enable a robust annual Head of Internal Audit Opinion to be provided.

### Key Emerging Themes

This year will be another challenging year for local authorities in terms of income, obligations and also the pressures on service delivery. We have identified a number of key areas which require consideration when planning internal audit coverage.

- Brexit – The Business Plan and Risk Register need to be stress-tested against continuing uncertainty, which may have knock-on impacts on recruitment and retention of staff and on procurement and suppliers.
- Data Protection Act 2018 – this has a significant impact on how data is held and protected and could lead to an increase in access requests.
- Cybercrime – all the indications are that there will be continued and more sophisticated attempts to disrupt and deny services often for no clear motive.
- Property Compliance – an increased focus following Grenfell and other incidents requires effective processes and controls over legislative compliance relating to water hygiene, gas safety, fire risk assessments, asbestos management and electrical safety.
- SLDC continues to implement its Customer Connect programme; one element of which is a fundamental reorganisation of the staffing structure to achieve savings and deliver services more effectively.

### Adequacy of the planned audit coverage

The reviews identified in the audit plan for 2019/20 support the Head of Audit's annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control as required by TIAA's charter. The reviews have been identified from your assurance framework, risk registers and key emerging themes.

## Internal Audit Plan

### Audit Strategy Methodology

We adopt a proprietary risk based approach (GUARD) to determining your audit needs each year which includes reviewing your risk register and risk management framework, previous internal audit work for the organisation, the Regulatory Framework and assessment of South Lakeland District Council, external audit recommendations together with key corporate documentation such as your business and corporate plan, standing orders, and financial regulations. The Audit Strategy is based predominantly on our understanding of the inherent risks facing South Lakeland District Council and those within the sector and has been developed with senior management and Committee.

### Risk Prioritisation

The Council has identified a rolling programme of audits that focus on its main financial and governance processes; these are set out at Annex A.

### Audit Strategy and Annual Plan

Following the risk prioritisation review, the Audit Strategy has been updated and the Annual Plan (Annex B) sets out the reviews that will be carried out, the planned times and the scopes for each of these reviews.

The Annual Plan will be subject to ongoing review and could change as the risks change for the organisation and will be formally reviewed with senior management and the Audit Committee mid-way through the financial year or should a significant issue arise.

The overall agreed time for the delivery of the Annual Plan includes: research, preparation and issue of terms of reference, production and review of working papers and reports and site work. The Annual Plan has been prepared on the assumption that the expected controls will be in place.

The total number of days required to deliver the Audit Plan is as agreed in the contract between TIAA and South Lakeland District Council. This number of days is fixed and it is TIAA's responsibility to deliver the Audit Plan for this number of days. Where South Lakeland District Council agrees additional work the required number of days and the aggregate day rate will be agreed in advance with the Chief Finance Officer & Assistant Director of Resources and will be clearly set out in the terms of reference for the additional review(s).

## Audit Remit

The Audit Remit (Annex C) formally defines internal audit's purpose, authority and responsibility. It establishes internal audit's position within South Lakeland District Council and defines the scope of internal audit activities.

## Reporting

**Assignment Reports:** A separate report will be prepared for each review carried out. Each report will be prepared in accordance with the arrangements contained in the Terms of Reference agreed with TIAA and which accord with the requirements of TIAA's audit charter and the IIA UK & Ireland standards.

**Progress Reports:** Progress reports will be prepared for each Audit Committee meeting. Each report will detail progress achieved to date against the agreed annual plan.

**Annual Report:** An Annual Report will be prepared for each year in accordance with the requirements set out in TIAA's audit charter and the IIA UK & Ireland standards. The Annual Report will include our opinion of the overall adequacy and effectiveness of South Lakeland District Council's governance, risk management and operational control processes.

**Other Briefings:** During the year Client Briefing Notes, Benchmarking and lessons learned digests will be provided. These are designed to keep the organisation abreast of in-year developments which may impact on the governance, risk and control assurance framework.

## Assurance Mapping

For each assurance review an assessment of the combined effectiveness of the controls in mitigating the key control risks will be provided. The assurance mapping process is set out in Annex D.

## Liaison with the External Auditor

We will liaise with South Lakeland District Council's External Auditor. Any matters in the areas included in the Annual Plan that are identified by the external auditor in their audit management letters will be included in the scope of the appropriate review.

## Performance

The following Performance Targets will be used to measure the performance of internal audit in delivering the Annual Plan:

Area	Performance Measure	Target
Achievement of the plan	Completion of planned audits.	100%
	Audits completed in time allocation.	100%
Reports Issued	Draft report issued within 10 working days of exit meeting.	95%
	Final report issued within 10 working days of receipt of responses.	95%
Professional Standards	Compliance with TIAA's audit charter and the IIA UK & Ireland Standards.	100%

## Conflict of Interest

We are not aware of any conflicts of interest and should any arise we will manage them in line with TIAA's audit charter and the IIA UK & Ireland standards, South Lakeland District Council's requirements and TIAA's internal policies.

## Limitations and Responsibility

Substantive testing will only be carried out where a review assesses the internal controls to be providing 'limited' or 'no' assurance with the prior approval of South Lakeland District Council and additional time will be required to carry out such testing. South Lakeland District Council is responsible for taking appropriate action to establish whether any loss or impropriety has arisen as a result of the control weaknesses.

Internal controls can only provide reasonable and not absolute assurance against misstatement or loss. The limitations on assurance include the possibility of one or more of the following situations, control activities being circumvented by the collusion of two or more persons, human error, or the overriding of controls by management. Additionally, no assurance can be provided that the internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks that may arise in future.

The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be

relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.

Reliance will be placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.

The matters raised in the audit reports will be only those that come to the attention of the auditor during the course of the internal audit reviews and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. The audit reports are prepared solely for management's use and are not prepared for any other purpose.

### Audit Committee Responsibility

It is the responsibility of the Audit Committee to determine that the number of audit days to be provided and the planned audit coverage are sufficient to meet the Committee's requirements and the areas selected for review are appropriate to provide assurance against the key risks within the organisation.

### Release of Report

The table below sets out the history of this plan.

<b>Date plan issued:</b>	<b>March 2019</b>
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## Annex A: Three year rolling programme of main financial and governance systems

Review Area	2019/20	2020/21	2021/22
Cash Receipting	✓		
NNDR	✓		
Risk Management	✓		
Income Management – Car Parking	✓		
Contract Management	✓		
Main Accounting System	✓		
Payroll		✓	
Creditors		✓	
Council Tax		✓	
Performance Management		✓	
Asset Management		✓	
Insurances		✓	
Corporate Governance – Compliance with Local Code		✓	
Budgetary Control			✓
Treasury Management			✓
Housing Benefits			✓
Information Governance			✓
Procurement			✓
Debtors			✓

## Annex B: Annual Plan – 2019/20

Audit	Type	Days	Rationale and Scope
Cash Receipting – Car Parking	Assurance	10	<p>Car parking income represents a significant proportion of the Council's annual income. This review will focus on cash receipts for car parking, taking in to account collection, storage, banking and the insurance arrangements. It will also consider the controls in place around the increasing use of alternative payment methods, such as through mobile phones and other devices.</p> <p>This review forms part of the rolling three-year programme of key financial and governance audits.</p>
NNDR	Assurance	15	<p>SLDC issues approximately 8,000 National Non-domestic Rates bills each year. The review will consider the calculation and application of business rates, collection, business rate relief and refunds, interest and appeals.</p> <p>This review forms part of the rolling three-year programme of key financial and governance audits.</p>
Risk Management	Assurance	5	<p>This high-level review will consider the arrangements in place for the identification and management of risks, including the identification of controls and actions designed to mitigate risk.</p> <p>This review forms part of the rolling three-year programme of key financial and governance audits.</p>
Income Management	Assurance	10	<p>The review will consider the arrangements for collecting and accounting for income received by the Council.</p> <p>This review forms part of the rolling three-year programme of key financial and governance audits.</p>
Contract Management	Assurance	20	<p>The review will consider the arrangements in place for managing major contracts and programmes including grounds and general maintenance, and property services. The review will include particular focus on the progressing of contractual arrangements for cyclical servicing and testing as highlighted in the Property Services review in 2018/19.</p> <p>This review forms part of the rolling three-year programme of key financial and governance audits.</p>
Main Accounting System	Assurance	10	<p>The review will assess procedures and controls within the main accounting systems to ensure that:</p> <ul style="list-style-type: none"> <li>• Control accounts and bank reconciliations are carried out regularly.</li> <li>• Transactions are transferred accurately from feeder systems.</li> <li>• The integrity and security of the main accounting system is maintained.</li> <li>• Responsibilities and processes for journal entries and year end processing are appropriately defined and allocated.</li> <li>• Transactions are accurately valued and allocated correctly within the general ledger.</li> </ul>

Audit	Type	Days	Rationale and Scope
			<p>This audit will focus on the arrangements for the overall governance of the system and the controls and risks related to the general ledger.</p> <p>This review forms part of the rolling three-year programme of key financial and governance audits.</p>
Customer Connect	Assurance	10	<p>Significant investment is being made in the Council's digital platform to provide more accessible and innovative means of communication and interaction with the public. The Council is undergoing restructuring to align with service delivery going forward.</p> <p>The review will consider the progress of the Customer Connect project, including project governance, timescales, milestones and overall implementation.</p>
ICT Network Security and Cybercrime	Assurance	5	<p>Organisations are increasingly reliant on ICT systems for everyday operations and service delivery.</p> <p>This review will assess the arrangements in place for maintaining the integrity of the computer network. This will include server configuration and patching, threat detection, change control, remote access, user administration and desktop control policies as well as examining supporting policy and procedural documentation. The review will also consider the arrangements for the pro-active identification, prioritisation and mitigation against cyber-crime.</p>
Empty Homes	Assurance	10	<p>One of the Council's housing priorities is to reduce the number of empty homes reduced and to work with owners and housing providers to bring empty homes back into use.</p> <p>The review will consider the Council's approach to dealing with empty homes including identification, intervention, assistance, performance and budget monitoring.</p>
ERDF Grant	Assurance	10	<p>SLDC is in receipt of ERDF funding of £4.67m for direct flood alleviation measures to the businesses on the Shap Road industrial estates and indirectly to over 1700 businesses throughout Kendal. As the accountable body for the ERDF grant, SLDC is legally and financially accountable for the effective management of the grant, will be required to submit ERDF claims and pay out grant funding to delivery and project partners. It will also be liable for any clawback of monies if it or any of its delivery partners breach the terms of the grant.</p> <p>The review will assess the extent to which the Council is complying with the terms of the grant funding.</p>
Data Protection Compliance	Assurance	10	<p>The review will consider how the Council can demonstrate that it meets its obligations under the Data Protection Act 2018 in handling, processing and storing data, and how it manages access requests.</p>
Leisure Services	Assurance	10	<p>SLDC entered into a ten year Leisure Partnership Agreement, beginning on April 1st 2014, with North Country Leisure (NCL), a Charitable Trust. From 1<sup>st</sup> April 2017, the contract transferred to GLL of which NCL had previously become a wholly owned subsidiary. GLL works with SLDC managing Kendal Leisure Centre, Ulverston Leisure Centre and Windermere Outdoor Centre.</p> <p>The review will consider the arrangements for: management of the leisure partnership contract in accordance with the Council's contract management policy; the adequacy of controls in place for identifying, monitoring and management contractual (operation and strategic) risks; and the adequacy and effectiveness of controls in place to monitor and manage the contractor's performance.</p>

Audit	Type	Days	Rationale and Scope
Emergency Planning	Assurance	10	The Council is a Category 1 emergency responder and plays a key role in the Cumbria Resilience Forum response to emergencies. The review will consider the arrangements in place for emergency planning including responsibilities, training, scenario testing, multi-agency working and lessons learned.
Household Waste Collection	Assurance	20	The Council has recently made changes to the way it collects and recycles household waste. The review will consider the arrangements in place for managing the Council's domestic bins and recycling service including contractual arrangements, service standards, budget monitoring and performance.
Follow-up	Follow up	15	The review will provide an independent update on the implementation of internal audit recommendations and their current status. Follow up work will be on-going throughout the year and reported to each meeting of the Audit Committee.
Management, Planning & Audit Committee Reporting/Support	Management	20	This time includes: meeting client management, overseeing the audit plan, reporting and supporting the Audit Committee, liaising with External Audit and Client briefings (including fraud alerts, fraud digests and committee briefings).
<b>Total days</b>		<b>190</b>	

## Annex C: Audit Remit

### Role

The main objective of the internal audit activity carried out by TIAA is to provide, in an economical, efficient and timely manner, an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the South Lakeland District Council framework of governance, risk management and control. TIAA is responsible for giving assurance to South Lakeland District Council “Governing Body” (being the body with overall responsibility for the organisation) on the adequacy and effectiveness of South Lakeland District Council risk management, control and governance processes.

### Scope

All South Lakeland District Council activities fall within the remit of TIAA. TIAA may consider the adequacy of controls necessary to secure propriety, economy, efficiency and effectiveness in all areas. It will seek to confirm that South Lakeland District Council management has taken the necessary steps to achieve these objectives and manage the associated risks. It is not within the remit of TIAA to question the appropriateness of policy decisions. However, TIAA is required to examine the arrangements by which such decisions are made, monitored and reviewed.

TIAA may also conduct any special reviews requested by the board, Audit Committee or the nominated officer (being the post responsible for the day to day liaison with the TIAA), provided such reviews do not compromise the audit service’s objectivity or independence, or the achievement of the approved audit plan.

### Access

TIAA has unrestricted access to all documents, records, assets, personnel and premises of South Lakeland District Council and is authorised to obtain such information and explanations as they consider necessary to form their opinion. The collection of data for this purpose will be carried out in a manner prescribed by TIAA’s professional standards, Information Security and Information Governance policies.

### Standards and Approach

TIAA’s work will be performed with due professional care, in accordance with the requirements of the Chartered Institute of Internal Auditors – UK & Ireland standards.

### Independence

TIAA has no executive role, nor does it have any responsibility for the development,

implementation or operation of systems. However, it may provide independent and objective advice on risk management, control, governance processes and related matters, subject to resource constraints. For day to day administrative purposes only, TIAA reports to a nominated officer within South Lakeland District Council and the reporting arrangements must take account of the nature of audit work undertaken. TIAA has a right of direct access to the chair of the board, the chair of the Audit Committee and the responsible accounting officer (being the post charged with financial responsibility).

To preserve the objectivity and impartiality of TIAA’s professional judgement, responsibility for implementing audit recommendations rests with South Lakeland District Council management.

Consultancy activities are only undertaken with distinct regard for potential conflict of interest. In this role we will act in an advisory capacity and the nature and scope of the work will be agreed in advance and strictly adhered to.

### Irregularities, Including Fraud and Corruption

TIAA will without delay report to the appropriate regulator, serious weaknesses, significant fraud, major accounting and other breakdowns subject to the requirements of the Proceeds of Crime Act 2003.

TIAA will be informed when evidence of potential irregularity, including fraud, corruption or any impropriety, is discovered so that TIAA can consider the adequacy of the relevant controls, evaluate the implication of the fraud on the risk management, control and governance processes and consider making recommendations as appropriate. The role of TIAA is not to investigate the irregularity unless commissioned to do so.

## Annex D: Assurance Mapping

### Corporate Assurance Risks

We consider four corporate assurance risks; directed; compliance; operational and reputational, and tailor the type of audit accordingly. For all types of audit we also taken into account value for money considerations and any linkages to the organisational Assurance Framework. The outcomes of our work on these corporate assurance risks informs both the individual assignment assurance assessment and also the annual assurance opinion statement. Detailed explanations of these assurance assessments are set out in full in each audit report.

### Assurance Assessment Gradings

We use four levels of assurance assessment: substantial; reasonable, limited and no. Detailed explanations of these assurance assessments are set out in full in each audit report.

#### LEVELS OF ASSURANCE PROVIDED



### Benchmarking

Where a similar review is carried out at a number of our clients we will subsequent to the completion of the review at each of the clients we will where relevant provide a benchmarking and lessons learned digest. This digest will include Operational Effectiveness Matters for the South Lakeland District Council to consider.

### Types of Audit Review

The Annual Plan includes a range of types of audit review. The different types of review focus on one or more of the corporate assurance risks. This approach enables more in-depth work to be carried out in the individual assignments than would be possible if all four assurance risks were considered in every review. The suite of audit reviews and how they individually and collectively enable us to inform our overall opinion on the adequacy and effectiveness of the governance, risk and control arrangements is set out in the assurance mapping diagram.

