AUDIT AND GOVERNANCE COMMITTEE

DATE   21 January 2021

REPORT OF   Head of Audit and Assurance

SUBJECT   **Internal Audit Plan 2021/22**

STATUS   Open

CONTRIBUTION TO OUR AIMS

An effective Internal Audit service contributes to the achievement of strategic objectives by assessing, providing comment and where relevant recommending improvement to the Council's assurance and control frameworks. In addition, the Internal Audit plan has been designed to provide assurances on strategic risks and is linked to the Council's key strategic outcomes and the code of corporate governance.

EXECUTIVE SUMMARY

The attached Internal Audit plan for 2021/22 highlights the planned work programme for Internal Audit. It also provides assurance to the Audit and Governance Committee that the plan has been compiled in line with the requirements of the Public Sector Internal Audit Standards (PSIAS).

RECOMMENDATIONS

That the Audit and Governance Committee approve the Internal Audit plan for 2021/22, subject to the confirmation of the specific planned audits in relation to strategic and operational risks which will be circulated following the completion of consultation with senior officers and will be brought to the June Audit and Governance committee.

REASONS FOR DECISION.

The Audit and Governance Committee, as the group charged for governance and in line with the Public Sector Internal Audit Standards, needs to receive assurance that:
- the Internal Audit plan has been produced in line with the requirements of the standards;
- the Internal Audit plan is aligned to the strategic objectives of the Council, and;
- the Internal Audit plan provides sufficient coverage and will allow the Head of Audit and Assurance to provide an assurance opinion on the Council's control environment as well as the risk management and governance arrangements.

1.   BACKGROUND AND ISSUES

1.1   Internal Audit is a key part of the Council's control environment. Its primary objective is to provide an independent and objective opinion and advise on the Council's control environment, which comprise the systems of risk management, internal control and governance.

1.2   The Accounts and Audit Regulations 2015 requires the Council to ensure there are sound systems of internal control and to undertake effective internal audit to evaluate the effectiveness of its risk management, control and governance processes. Internal audit must take into account Public Sector Internal Auditing Standards (PSIAS) and guidance.

1.3   The PSIAS requires that an Internal Audit Plan is agreed by the Audit Committee annually. The audit plan must be risk-based and take into account the organisation's risk management framework and reflect changes in the organisation's business, risks, operations, programs, systems and controls. The plan should also confirm the resources available and required to support a reliable year-end Audit opinion.

1.4   The attached audit plan provides a summary of the planned work to be carried out by Internal Audit in 2021/22, the methodology used for identifying the work programme, assurance that it had compiled in line with PSIAS requirements, and that there are currently sufficient resources available to enable the Head of Audit and Assurance to provide a reliable risk based opinion on the Council's control environment.

1.5   The consultation period with senior officers on the section of the plan relating to strategic risk, operational risk and governance was extended to reflect the impact of COVID-19 on the council's risk profile and priorities. Hence at 31 March 2021 this was ongoing and is due to be completed by 30 April 2021. We will circulate an updated plan, including a breakdown of the planned audits to be covered under this heading once complete.
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1.6   The plan is designed to be flexible and be risk placed. As new risks emerge the plan may need to be re-prioritised. Internal audit will keep the Audit Committee informed of any such changes throughout the year

2.   RISKS AND OPPORTUNITIES

The Audit plan is closely aligned to the Council's strategic risk register, strategic outcomes and emerging risks. Although it is forecast that sufficient resource is available to deliver the audit plan there is an inherent risk of events such as staff turnover and sickness being greater than anticipated, unanticipated issues arising in relation to planned audit assignments, special investigations, or emerging risks requiring input and assurance from audit could impact on the delivery of the plan.

As the Audit plan is focused on those areas where there are potentially the greatest risks to the control environment, and is cyclical in nature, Internal Audit therefore cannot provide assurance on the design and operation of all services and systems within the Council.

3.   **OTHER OPTIONS CONSIDERED**

Not applicable - it is a requirement under the standards for the Audit and Governance Committee to be presented with an Audit plan and to be provided with assurances on the methodology for completing the plan and its delivery.

4.   **REPUTATION AND COMMUNICATIONS CONSIDERATIONS**

An effective audit service which is able to produce and deliver a plan in line with expected standards enhances the reputation of the Council to its stakeholders by providing assurance and comment on the effectiveness of its control environment. The plan is subject to consultation with, and communicated to, Directors, Assistant Directors and managers to ensure they are aware of the content of the audit plan, and this accompanied by the "Audit Offer"/ "FAQs" which lays out the purpose of internal audit and the expectations on them in relation to the carrying out audit work.

5.   **FINANCIAL CONSIDERATIONS**

A key role of Internal Audit is to provide assurance on the financial systems which support the production of the Statement of Accounts. Any significant issues arising from this work will be reported to the Audit and Governance Committee within the Chief Audit Executive Annual Report and Opinion. In addition, effective financial reporting and processes are a key component of the control environment and therefore are considered when producing the Audit plan and subsequently planning each assignment.

6.   **CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS**

As   it is a key element of the Council's code of governance, environmental strategy is included in the audit plan on a cyclical basis. The development of the Council's approach to environmental sustainability and carbon reduction has been identified as an area of focus for the 2021/22 audit plan.

7.   **FINANCIAL IMPLICATIONS**

There are no financial implications arising as a direct result of this report. Based on the opinion provided within the body of the report by the Head of Audit and Assurance, the S151 Officer is satisfied that the 2020/21 Audit plan has been produced in line with required standards, is aligned to the key strategies of the Council and (subject to the risks identified in section 2) will allow sufficient coverage so as to allow the Head of Audit and Assurance to provide assurance on the control environment, risk and governance arrangements.

8. **LEGAL IMPLICATIONS**

There are no direct legal implications arising from the report.

9. **HUMAN RESOURCES IMPLICATIONS**

Any direct HR implications arising from this report will be supported by organisational policies and procedures and any relevant employment legislation.

10. **WARD IMPLICATIONS**

Applicable to all wards

11. **BACKGROUND PAPERS**

Audit Charter (January 2020)

12. **.. CONTACT OFFICER**

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Internal Audit Plan 2021/22

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1. **INTRODUCTION**

   1.1 As recognised in the Accounts and Audit Regulations 2015 Internal Audit is a key part of the Council's control environment. Its primary objective is to provide an independent and objective opinion and advice on the Council's control environment, which comprise the systems of risk management, internal control and governance. The Audit Charter (which was last approved by the Audit and Governance Committee in January 2020) defines the mission of internal audit "*To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight*".

   1.2 As laid out in paragraph 6.1 of the charter the Head of Audit and Assurance is responsible for "*developing an annual audit plan based on an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes, and adjust the plan in response to the organisations business, risk, operations, programmes, systems and controls* ".

   1.3 The audit plan lays out Internal Audit's priorities and work programme for 2021/22. It has been compiled to ensure that
   - it meets the requirements of the Public Sector Internal Audit Standards (summarised in Appendix 1);
   - provides sufficient evidence to support a reliable year-end Audit opinion on the Council's control; and
   - adds value to the Council by providing assurance on the underlying processes and governance arrangements to support the achievement of strategic outcomes and the achievement of value for money (VfM).

2. **COMPILATION OF THE AUDIT PLAN**

   2.1 As required by the standards, it has been developed on a risk-based approach. We have prioritised resources to where the need is greatest, and where potentially Audit could provide most value. In compiling the plan we have ensured that the requirements laid down in the standards have been met.

   2.2 At the heart of the approach to Internal Audit is the "3 lines of assurance" model where:
   - the first line of defence is the control environment operated by managers in individual services;
   - the second line of defence includes the oversight functions such as Finance, HR, Procurement, Legal Services, "Client side management" who provide advice, direction and support to individual services; and
   - the third line of defence, such as Internal Audit, External Audit and other external assurance providers which offer independent challenge to business functions.

The more developed the first and second lines of defence are then the greater the reliance that can be placed on the assurances obtained by services rather than directly from Internal Audit work.

2.3   The plan is made up of a number of key components designed to provide assurance on the effectiveness of the Council's control environment, i.e.
- the achievement of strategic outcomes;
- those specific areas identified in the Council's code of governance;
- effective procedures and processes;
- reliable financial and performance information;
- compliance with laws and regulations ; and
- the protection of council assets, including physical assets, financial resources, people, information

Depending on the nature of their scope, audit assignments may provide assurance on more than one of these areas of the control environment. In addition, internal audit follows up the implementation of agreed actions from previous audit work with relevant managers.

2.4   In addition Internal Audit provides support to the Council in the following areas:
- providing assurance in relation to the control environment within maintained schools;
- providing advice and support to management on the design of the control environment; and
- the mandatory certification of external grant claims

2.5   Internal Audit takes a cyclical risk based approach in determining the content of the audit plan with those areas having the biggest potential risk to an effective control environment. It first identifies those areas which potentially have a significant impact on the control environment. The key sources of information are:
- the Council's key strategic outcomes and performance reports relating to their delivery;
- the strategic risk register;
- key council priorities and programmes as identified in the commissioning plan;
- those areas in the operational risk registers where a high inherent risk has been identified;
- areas which represent key components of the code of governance;
- activities in receipt of significant external grant funding;
- the Council's statutory responsibilities;
- cabinet and scrutiny reports to help identify areas of emerging risk; and
- emerging national issues, including areas subject to changes in legislation and regulation.

Those areas considered to have the highest risk are prioritised for inclusion in the plan based on the likelihood of a control failure and its

impact to the organisation should it occur. A summary of what is considered in making this assessment is shown on Appendix 2

2.6 The level of estimated audit resource allocated to each assignment is dependent upon:

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- previous knowledge of the function or system and the risks associated with it;
- if there have been significant changes to the design or operation of the system or function since it was last audited;
- the complexity of the function or system;
- the level of assurance which can be obtained from internal assurance mechanisms (first and second line of assurance) or by external sources of assurance such as the external audit and the outcome of inspections (third line of assurance); and
- the nature of the testing required to obtain assurance - for example the use of control testing and observation compared to substantive testing, and the testing methodology required. Increasingly the audit team has been using analytical techniques to obtain assurance based on wider populations compared to sample testing.

2.7 The draft plan, based on internal audit's risk assessment, is then subject to consultation with the Strategic Leadership Team and with Assistant Directors. Where appropriate amendments are made to the plan to reflect its feedback on the areas where they felt audit resouce needed to be prioritised. The emerging themes which have been identified as part of the 2021/22 audit planning process include:
- council recovery following the pandemic;
- the transformation programme in relation to Children's Services;
- preparing for the internal reorganisation of the National Health Service, which will potentially have significant impacts on future of the "union", the arrangements for adult social care commissioning, and public health;
- organisational change and the development of revised approaches to areas such as environmental sustainability and carbon reduction, the implementation of the people and culture strategy, the review of the constitution and the scheme of delegation, and growing the economy;
- further development of the outcomes framework, data insights and project management;
- the receipt of additional government funding such as the Towns Fund and the High Streets Fund;
- the implementation of the new human resources/ payroll system, and the new finance system;
- the requirement for internal audit to certify statements concerning the use government grants provided in relation to the pandemic.

2.8 The proposed audit plan is summarised in the table below. It shows the resources provisionally allocated to each of the main areas of the internal audit activity. The consultation period with senior officers on the section relating to strategic and operational risk/ governance was extended to reflect the impact of COVID-19 on the council's risk profile and priorities. Hence at 31 March 2021 this was ongoing and is due to be completed by 30 April 2021. We will circulate an updated plan, including a breakdown of the planned audits to be covered under this heading once complete.

Area	Planned days	
Strategic and operational risk/ governance	335	A risk-based programme of audit reviews to provide assurance on the Council's governance framework, as well as the arrangements in place to deliver key strategic and service outcomes efficiently and effectively and ensure compliance with laws and regulations. This will also include a review of the council's risk management arrangements carried out by a third party
Financial systems	140	Providing assurance on the design and operation of the fundamental financial systems, including on a cyclical basis those systems which feed into them. Financial systems will be given specific emphasis in 2021/22 due to the introduction of the new finance and payroll systems.
ICT	50	Providing assurance on the effectiveness of the Council's approach to ICT and Information governance, and key ICT systems. There will be special emphasis in 2021/22 on the ICT controls to be built into the finance system and phased implementation of the digital strategy
Procurement and contract management	25	Providing assurance on the Council's procurement and contract management processes, including reviews of a sample of key procurement exercises.
Schools	10	Provide assurance on the control environment within maintained schools via a cyclical programme of schools audits
Grant Certification	60	Mandatory certification of grant claims. The time required for this element of audit activity due to a greater number of certifications due to COVID-19 related grants
Advisory	50	Providing advice and support on governance and internal control matters
Follow up	35	Follow up of previous actions
Probity and Counter Fraud	60	Proactive and reactive work to support the Council's approach to anti-fraud and corruption, to provide assurance on the

			controls in place designed to prevent fraud in areas of high risk
Union Related Audits		80	Pre-dominantly audits related to Adult social Care which are reported through the NELCCG audit committee but are also taken into account when considering the internal audit opinion for the Council
Management time		75	Includes audit planning, monitoring, liaison with the Audit Committee and senior management
Contingency		20	
Total		940	

2.9   Throughout the year the audit plan will be subject to regular review to reflect the changes in the risks to the Council's control environment, and also to reflect changes in the assumptions made when the plan was first completed. For example:

- an area in which internal audit intended to work may subsequently be subject to an external inspection, in which case less audit work may be required as audit will look to seek reliance on the outcome of the inspection;
- where a new process or system has not been implemented as quickly as anticipated and therefore the audit of it would be delayed;
- a risk may emerge during the year which may require to be included in the audit plan so that work can be carried out to obtain assurance;
- where issues arise during a planned audit then extra resource may be required in order to obtain sufficient assurance and /or obtain an understanding of the underlying control issues.
- uncompleted audit work carried forward from the previous year; and
- change in staffing levels during the year due to leavers or long-term sickness absence may require a reprioritisation of the plan.

.   Any significant changes to the allocations will be reported to future Audit Committees.

3   RESOURCES TO DELIVER THE AUDIT PLAN

3.1   The standards require the Head of Audit and Assurance to be satisfied that he or she has sufficient resources available to deliver the plan and be able to provide an opinion on the control environment and discharge their other responsibilities. In addition, under the CIPFA statement "The Role of the Head of Internal Audit" the Head of Internal Audit must "lead and direct an Internal Audit service that is resourced to be fit for purpose".

3.2   Based on the risks identified we can confirm that there are sufficient resources available to deliver the Audit Plan as laid out in section 2 of this report. This conclusion is due to the following:

- an assessment of resources available to the team as of 31 March 2021 taking into account annual leave, training, non-audit time etc- this includes being prudent on the potential impact of long-term sickness and unfilled vacancies that may arise given the relatively small size of the team; and
- as of 30 May 2021, taking into account the procurement of additional specialist ICT audit and the completion of the recruitment process to fill an existing vacancy, the team will be at full staffing complement.

3.3 It is recognised, however, that resourcing is a risk, and in response we will monitor the delivery of the plan on a monthly basis and will reprioritise the audit programme on a risk basis should issues arise regarding the level of resources available.

4 REPORTING AND MONITORING ARRANGEMENTS

4.1 For most assignments, excluding advisory work and grant certification, we will provide a report with an overall opinion on the control environment ("substantial", "satisfactory", "limited", "none") and the residual risk. There will be some areas, due to particular circumstances, where it may not be appropriate to issue a full report and/or an opinion, although in such cases a short commentary will be provided in the Annual Head of Internal Report and Opinion.

4.2 A summary of completed audit work will be included in the Annual report, and this will feed into the overall opinion on the control environment. Interim reports will also be presented to the Audit and Governance Committee during the year. These will include progress in achieving the annual plan, including any significant amendments to it.

4.2 As part of its Quality Assurance and Improvement Programme (QAIP) Internal audit has a number of performance indicators based on the three principles of Outcome Based Accountability:
- "what did we do?";
- how well did we do it?; and
- how did we add value

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Appendix 1: Confirmation of compliance with Public Sector Internal Auditing Standards (PSIAS) requirements

PSIAS Requirement	How we demonstrate compliance
The Head of Internal Audit (HOIA) must establish risk-based plans to determine the priorities of the Internal Audit activity, consistent with the organisation's goals. (PSIAS 2010)	The plan is based on the Council's strategic objectives and its Code of Corporate Governance. Those activities with the greatest impact on the achievement of strategic objectives are given greatest priority. The Head of Audit and Assurance carries out a detailed risk assessment to prioritise audit work
The risk-based plan must take into account the requirement to produce an annual Internal Audit opinion and the assurance framework. (PSIAS 2010 public sector requirement)	The Audit Plan has been designed to ensure that there is sufficient evidence to provide a reliable year end opinion in relation to risk, governance and internal control.
The plan must incorporate or be linked to a high-level statement of how the Internal Audit service will be delivered, developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities. (PSIAS 2010 public sector requirement)	The Audit Charter, updated in January 2020, lays out the key objectives of internal audit, the methodology used to develop the plan and its links to organisational objectives and priorities.
The risk-based plan must explain how Internal Audit's resource requirements have been assessed. (PSIAS 2030 public sector requirement)	Considered in Section 3 of this report
The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.	The Head of Audit and Assurance carries out a detailed risk assessment to prioritise the work to be included in the audit plan. In determining priorities discussions are held with the Senior Leadership Team, Heads of Service and other stakeholders.

Appendix 2: Internal Audit planning risk assessment methodology

The Council's activities/ functions are prioritised based on the likelihood of a significant control failure and its impact on the control environment

Likelihood of control failure

For the purposes of audit planning those areas which have a higher likelihood control failure include those which exhibit one or more of the following:

- Have had recent changes to system design
- There have been changes to statutory responsibilities or national guidance
- Have been identified as having high inherent risk in the Council's risk register
- Have not been subject to audit review for a number of years
- Control failures have been recently occurred.
- Weaknesses identified by external inspectorates which required the Council to take action.

Impact on the control environment

Areas of high priority exhibit at least one of the following:

- Has a significant impact on the achievement of stated strategic outcomes;
- Has a material impact on the Financial Statements;
- Has a material impact on the governance arrangements of the Council, is an integral part of the Code of Corporate Governance, and impacts on the Annual Governance Statement;
- Is intended to mitigate a significant strategic risk;
- Has a significant impact on ensuring that the Council operates within applicable laws and regulations and/or prevents significant reputational risk;
- Significant inherent risk of fraud or the loss of assets;
- Significant safeguarding implications;
- Failure of the function may potentially lead to:
    1. a significant financial loss;
    2. a detrimental impact to service users; or
    3. an adverse effect on the Council's reputation.

Areas of low priority exhibit most of the following:

- The activity does not significantly contribute to the achievement of strategic outcomes;
- The activity is relatively small in value, and would not have a material impact on the Financial Statements;
- The activity does not have a material impact on the governance arrangements of the Council;
- The activity does not have a significantly impact on the Council's strategic or operational risks;
- The activity is not significantly subject to laws and regulation and/or does not have a significant reputational risk;
- Low inherent risk of fraud or the misappropriation of assets;
- Limited direct safeguarding implications;
- Failure of the function would not lead to:
    1. a significant financial loss;
    2. a detrimental impact to service users; or
    3. an adverse effect on the Council's reputation