

INTERNAL AUDIT STRATEGY AND PROPOSED 2020/21 PLAN

Executive Summary

This report sets out the Internal Audit Strategy and proposed Annual Plan for 2020/21, which details how the Council will meet its statutory requirements for Internal Audit.

The report explains that the overall level of audit coverage has been developed by applying a risk based approach. The Audit Plan continues to focus upon areas of highest risk and the overall coverage is sufficient to provide Members, management and other external bodies with an independent assurance on the adequacy of the Council's risk management, governance and internal control framework.

Recommendations

The Committee is requested to:

RESOLVE That the Internal Audit Strategy and the indicative Audit Plan for 2020/21 be approved.

The Committee has the authority to determine the recommendation set out above.

Background Papers: None.

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Internal Audit Strategy and Proposed 2020-21 Plan

1.0 Introduction

- 1.1 This report establishes the Internal Audit Strategy and proposed Annual Plan for 2020/21, which details how the Council will meet its statutory requirements for Internal Audit.

2.0 Background

- 2.1 The fundamental role of Internal Audit is to provide senior management and members with independent assurance on the adequacy, effectiveness and efficiency of the system of internal control and report major weaknesses together with recommendations for improvement. The role is fulfilled by carrying out appropriate audit work in accordance with the Annual Plan as approved by the Chief Finance Officer and the Standards and Audit Committee. As Internal Audit is a major source of assurance that the Council is effectively managing its risks, a key rationale for the development of the Internal Audit Plan was the Council's own Strategic Risk Register and risks detailed within Service Plans.

- 2.2 The Council's Internal Audit Service is delivered in accordance with a regulatory framework comprising:

- The Local Government Finance Act 1972 which requires councils to 'make arrangements for the proper administration of their financial affairs'.
- The Accounts and Audit Regulations 2015. These require that all local authorities must 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- The Public Sector Internal Auditing Standards (PSIAS). These standards set out what is meant by appropriate internal audit practices. These are mandatory standards and replaced the former CIPFA Code of Practice for Internal Audit in Local Government 2006.

- 2.3 The Internal Audit Strategy is a high level statement which outlines how the Internal Audit Service will be delivered to meet the requirements as set out above. The PSIAS no longer make specific reference to a strategy document, but they require that the information that it contains be communicated to the Audit Committee, to support discussion about audit planning and resources.

3.0 Internal Audit Strategy

- 3.1 This strategy recognises that it is management's responsibility to establish and maintain a sound system of internal control and ensure that risks are properly managed. The overall aim of internal audit work is to establish areas requiring improvement and recommend solutions that will enable the Council to achieve its objectives.

- 3.2 The audit strategy and planning process reflects that the audit environment is constantly changing, requiring continuous review and re-evaluation to ensure that emerging risks are identified and assessed and included as appropriate in the audit plan. Specifically, recognising the unprecedented challenges facing Public Sector finances, the strategy must have in built flexibility to consider:

- Greatest risks to achievement of the Council's objectives
- New areas of activity;
- Issues of local significance and importance;
- Changing issues and priorities;

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- Changes to models for service delivery and partnership working; and
- The impact of changes on existing control structures.

3.3 The purpose of the audit strategy is to establish an approach that will enable internal audit to be responsive to change and managed in a way which will facilitate:

- An understanding of assurance needs to enable the provision to Members and management of an overall opinion each year on the Council's risk management, control and governance framework, to support the Annual Governance Statement;
- Audit of the Council's risk management, control and governance systems through an approach which assesses risks to Council objectives and prioritises audits accordingly;
- The identification of audit resources required to deliver an audit service which meets the PSIAS and achieves the required level of audit coverage to enable an opinion to be given on the Council's control environment;
- The identification of other sources of assurance from other assurance providers which can be relied upon to inform the focus of internal audit activity;
- Co-operation and working protocols with the external auditors (BDO) and any other relevant review bodies to ensure that assurance functions work effectively together; and,
- Identification of responsibilities for providing assurance where services are delivered in partnership.

3.4 Based on the budget available for internal audit work, the strategy and audit work make provision for:

- Sufficient coverage of all major financial systems to provide the necessary audit assurance;
- New systems and emerging high risk areas;
- Cross cutting reviews for a selection of corporate themes which link to the corporate risk register;
- Support for corporate governance, with particular focus on governance issues identified in the Council's annual governance statement, ensuring that proposed actions are taken;
- Monitoring the implementation of high risk audit recommendations;
- An element for contingency to enable the audit service to provide ad hoc advice and to respond to management requests for support.

3.5 The internal audit plan is prepared on the basis of a risk assessment combined with an understanding of other sources of assurance which are then compared to the audit resources available. Given the level of audit resources available, it is vital that audit work is planned and focused to ensure an efficient and effective use of resources directed at those areas of greatest risk to the Council.

3.6 The Internal Audit function is outsourced to Mazars, with the Head of Internal Audit role being undertaken as a secondment from Mazars.

4.0 Development of 2020/21 Audit Plan

4.1 The Audit Plan continues to focus upon areas of highest risk and is sufficient to provide Members and management with independent assurance on the adequacy of the Council's internal control framework.

4.2 The main factors taken into account in compiling the Audit Plan consist of:

- Materiality and significance based upon budgets and volume of transactions;

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- Historic knowledge and experience accumulated in Internal Audit, based upon the results of previous audits;
 - Changes to the control environment or legislative changes since the previous audit;
 - A review of audit themes against the Council's risk register and corporate objectives;
 - Other sources of assurance available to the Council;
 - Key governance issues identified within the Annual Governance Statement (AGS);
 - Concerns and emerging risks as identified by Chief Officers; and,
 - Horizon scanning of issues affecting all local authorities.
- 4.3 The total number of audit days allocated for 2020/21 is 303, including 30 days for IT audit and 24 days for the Head of Audit role. This number is in line with the allocation for 2019/20 (305 days). The resources allocated ensure that sufficient high risk areas are audited to allow the Head of Audit to provide an effective annual opinion on the internal control environment.
- 4.4 The proposed audit plan is presented in Appendix A. Risks referred to in the plan are those on the corporate risk register. The proposed plan has been agreed by the Council's Chief Finance Officer and informed by discussions with Corporate Management Group. It will also be circulated to the Council's external auditor, BDO, to ensure that, where possible, the contents reflect areas where they require audit assurance.

5.0 Implications

Financial

- 5.1 There are minimal financial implications around the implementation of internal audit recommendations. Some audit recommendations are designed to improve value for money and financial control.

Human Resource/Training and Development

- 5.2 Some audit recommendations need resource to put in place.

Community Safety

- 5.3 There is minimal impact on Community Safety.

Risk Management

- 5.4 Internal Audit identifies weaknesses in the control environment. Implementation of recommendations therefore improves the control environment and the management of risk.

Sustainability

- 5.5 There is minimal impact of sustainability issues.

Equalities

- 5.6 There is minimal impact of equalities issues.

Safeguarding

- 5.7 An internal audit of Safeguarding is included in the 2020/21 Internal Audit Plan.

REPORT ENDS

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Appendix A – Proposed 2019/20 Internal Audit Plan

	Title	Source	Scope/notes	Indicative days
People				
<u>1</u>	Safeguarding Children and Adults	Discussion with CMG and previous audit coverage	Policies, Procedures and Strategy; Awareness and Publicity; Staff Vetting and Training; Referrals Assessments and Case Management; Quality Assurance; and Reporting and Monitoring	10
<u>2</u>	Bringing Empty Homes Back into Use	Discussion with CMG	Controls and governance around bringing empty homes into use.	10
<u>3</u>	Affordable Housing Delivery	Risk Register (5)	Strategy and Policies; Affordable Housing Provision; Performance Monitoring and Reporting.	10
<u>4</u>	Private Sector Leasing	Discussion with CMG	Strategy, Policies and Procedures; Application Handling; Lease Agreements; Property Condition Surveys; Rent Collection and Payment; Maintenance and Repairs; Management Reporting.	10
Place				
<u>5</u>	Freedom Leisure Contract Management	Standards and Audit Committee request	Contract Formalities, Contract Monitoring and Performance Management, Payments, Financial Management	12
<u>6</u>	Capital programme	Risk Register (1) and discussion with CMG	Governance arrangements, Development of the Capital Programme, Capital Programme and Project Monitoring, Programme Alterations and Virements, Capital Programme and Project Income, Financial and Performance Management Reporting.	12

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<u>7</u>	Planning Enforcement	Discussion with CMG	Policies and Procedures; Receipt of Intelligence and Complaints; Proactive Monitoring; Investigations and Site Visits; Enforcement Action	8
<u>8</u>	Utilities and Energy Management	Discussion with CMG	Strategy, Purchasing Arrangements; Payments; Monitoring and Management Information; Energy Efficiency and Carbon Reduction Programmes	10
<u>9</u>	On Street Parking	Discussion with CMG and previous audit coverage	Policies and Procedures; Parking Permits; Penalty Charge Notices; Income Collection and Reconciliations; Performance Management and Reporting	10
Us				
<u>10</u>	Complaints	Discussion with CMG	Policies, Procedures and Legislation; Receipt, Recording and Allocation of Enquiries, Requests and Complaints; Review and Issue of Responses; Performance Monitoring and Reporting	8
Corporate				
<u>11</u>	Key Financial Control Testing – Accounts Payable, Accounts Receivable, General Ledger, Payroll, Council Tax, NNDR	Standing item	Testing of key financial controls in each financial system.	45
<u>12</u>	Treasury Management	Cyclical Key Financial System Coverage	Policies and Procedures; Cash Flow Forecasting; Investments; Borrowings; System Reconciliations; Management Information and reporting.	10

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<u>13</u>	Budgetary Control	Risk Register (2)	<p>Policies and Procedures, Budget Setting, Budget Upload, Alterations and Virements, Budget Monitoring and Reporting.</p> <p>To include the identification and monitoring of savings.</p>	12
<u>14</u>	Group Companies	Risk Register (3) and Discussion with CMG	<p>Detailed audit of one subject area - Scope to be agreed with Finance Director.</p>	10
<u>15</u>	Procurement	Risk Register (18)	<p>Strategic Outline Case; Market Building; Contract Strategy; Delivery/Procurement Strategy; Advertising; Evaluation and Authorisation to Proceed; Formation of Contract; Compliance with Council and Legal Requirements; Purchase Orders; Contracts and Deeds.</p>	20
<u>16</u>	Payroll	Cyclical full reviews of finance systems	<p>Legislative, Organisational and Management Requirements; Payroll Transactions and Records; Joiners; Leavers; Variations and Adjustments to Pay; Deductions; Payments; Management Reporting.</p>	10
<u>17</u>	Business Planning	Service plan	<p>Priority Setting; Collation of Information and Development of Plans; Scrutiny and Approval; Communication; Monitoring and Review; Risk Management.</p>	12
<u>18</u>	Economic Development	Risk Register (8 & 9)	<p>Governance; Development and Delivery Plans; Management and Coordination of Individual Programmes and Projects; Stakeholder Liaison and Consultation; Monitoring and Risk Management</p>	10

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IT Audit				
<u>19</u>	Capita Open Housing Application Audit	Risk Register (14)	Application Management and Governance; Systems Security; Interface Controls and Processing; Data Input; Data Output; Change Control; System Resilience and Recovery; Support Arrangements.	15
<u>20</u>	Review of Office 365 Project Plan	Risk Register (14)	Review of the implementation of Office 365	15
Other Work				
<u>21</u>	Follow up reviews	Ongoing		10
<u>22</u>	Management	Ongoing		20
<u>23</u>	Head of Audit	Ongoing		24
TOTAL AUDIT DAYS				303