

INTERNAL AUDIT STRATEGY AND PROPOSED 2021/22 PLAN

Executive Summary

This report sets out the Internal Audit Strategy and proposed Annual Plan for 2021/22, 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 2021/22 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 2021-22 Plan

1.0 Introduction

- 1.1 This report establishes the Internal Audit Strategy and proposed Annual Plan for 2021/22, 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 of the Council. 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'; and
 - The UK 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 (or equivalent), 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 internal audit strategy and planning process reflects that the control 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;
 - Changes to models for service delivery and partnership working; and

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- The impact of changes on existing control structures.

3.3 The purpose of the internal 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 within the audited financial statements;
- Internal Audit of the Council's risk management, control and governance systems through an approach which assesses risks to Council objectives and prioritises internal audits accordingly;
- The identification of internal audit resources required to deliver a 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 internal 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 Strategic 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 internal audit recommendations categorised as high; and
- 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 internal audit resources available. Given the level of internal audit resources available, it is vital that internal 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, including the Head of Internal Audit role is outsourced to Mazars LLP under the London Borough of Croydon APEX Framework.

4.0 Development of 2021/22 Internal Audit Plan

- 4.1 The Internal 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 Internal Audit Plan consist of:
- Materiality and significance based upon budgets and volume of transactions;
 - 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 internal audit;
 - A review of internal audit themes against the Council's Strategic Risk Register and corporate objectives;
 - Other sources of assurance available to the Council;
 - Concerns and emerging risks as identified by Chief Officers; and,
 - Mazars Horizon Scanning of issues affecting all Local Authorities (<https://www.mazars.co.uk/Home/Industries/Public-social-sector/Public-sector-insights/Internal-audit-challenges-for-the-PS-in-2021>).
- 4.3 The total number of internal audit days allocated for 2021/22 is 321, including 30 days for IT audit and 24 days for the Head of Internal Audit role. This number is 8 days above the original allocation for 2020/21 (313 days), however since approval, three audits have been deferred (36 days) and as such the actual days delivered will be less than planned in 2020/21. The resources allocated ensure that sufficient high risk areas are audited to allow the Head of Internal Audit to provide an effective annual opinion on the internal control environment.
- 4.4 The proposed Internal Audit Plan is presented in Appendix A. Risks referred to in the plan are those on the Strategic Risk Register. The proposed plan has been agreed by the Council's Chief Finance Officer and informed by discussions with Corporate Management Group (CMG). It will also be circulated to the Council's external auditor, BDO.

5.0 Key Performance Indicators for 2021/22

- 5.1 In line with the Internal Audit Charter presented to Committee in November 2020, Internal Audit is seeking to establish a service which is continually improving. We acknowledge it is essential that we agree on measures by which Internal Audit should demonstrate both that it is meeting the Council's requirements and that it is improving over the life of the contract.
- 5.2 This will be both through quantifiable factors within Key Performance Indicators (KPIs) and additionally through a number of measures to further seek to establish the value derived from internal audit.
- 5.3 Following discussions with the Council's Chief Finance Officer, nine indicators were agreed to be measured and reported as part of the quarterly progress reports presented to the Committee. Details of the agreed indicators can be found within Appendix B.

6.0 Implications

Financial

- 6.1 There are financial implications related to the delivery of the proposed plan and days included. Sufficient budget needs to be set aside to cover the costs of delivery.
- 6.2 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

- 6.3 Some internal audit recommendations need resource to put in place.

Community Safety

- 6.4 There is minimal impact on Community Safety.

Risk Management

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

Sustainability

- 6.6 Two internal audits related to sustainability are included in the 2021/22 Internal Audit Plan (Green Jump Surrey and Air Quality).

Equalities

- 6.7 There is minimal impact of equalities issues.

Safeguarding

- 6.8 There is minimal impact of equalities issues.

REPORT ENDS

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Appendix A – Proposed 2021/22 Internal Audit Plan

	Title	Source	Scope/notes	Indicative days
People				
1	Disabled Facilities Grant (DFG)	Discussion with CMG	Policies and Procedures; Accessing to Funding; Works Performed; Performance and Financial Monitoring	10
2	Homesafe Plus (Hospital Discharges)	Discussion with CMG	Scope to be determined	10
3	Careline	Discussion with CMG	Scope to be determined	10
4	Temporary Accommodation	Discussion with CMG	Strategy, Policies and Procedures; Suitability of TA; Offers of TA; Monitoring Clients Stay in TA; Payments to Accommodation Providers; Performance Management and Reporting	12
5	Housing Benefits	Discussion with CMG and previous audit coverage	Policies and Procedures; Backdated Claims; Overpayments; Payments; Scanning & Indexing; Quality Controls; Reconciliations; Performance Reviews	12
Place				
6	Building Control	Discussion with CMG and previous audit coverage	Procedures and Guidance, Applications, Inspections, Fee Income, Enforcement, Dangerous Structures, Performance Monitoring and Financial Management	10
7	Capital programme	Risk Register (1) – Deferred from 20/21	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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	Title	Source	Scope/notes	Indicative days
8	Private Water Supplies	Discussion with CMG	Compliance with the Private Water Supplies Regulations 2009	10
9	Air Pollution	Discussion with CMG and previous audit coverage	Strategy and Planning; Monitoring of Air Quality; Air Quality Management Areas and Action Plans; Stakeholder and Partner Engagement; Pollution Prevention and Control Permits; Performance Management and Reporting	10
10	ThamesWey – Green Jump Surrey	Risk Register (3) and Discussion with CMG	Scope to be determined. Overall Project Management	20
Us				
11	Taxi Licensing	Discussion with CMG and previous audit coverage	Management, Organisational and Regulatory Requirements; Background Checks; Issue of Licences and Income Collection; Monitoring, Inspections and Enforcement	10
12	Overview and Scrutiny Review	Peer Challenge LGA Report	Scope to be determined	10
Corporate				
13	Key Financial Control Testing – Accounts Payable, General Ledger, Payroll, Council Tax, NNDR	Standing item	Testing of key financial controls in each financial system.	45
14	ThamesWey – Debt Management	Risk Register (3) and Discussion with CMG	Scope to be determined	10
15	Victoria Square Development	Risk Register (10) – Deferred from 20/21	Scope to be determined	12

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	Title	Source	Scope/notes	Indicative days
16	Insurance	Discussion with CMG	Insurance Coverage; Policies, Procedures and Guidance; Claims Administration; Premium Payments and Cost Allocations; Self Insurance; Loss Adjusters	10
17	Corporate Debt Management	Discussion with CMG	Scope to be determined	12
18	Business Planning	Service plan – Deferred from 20/21	Priority Setting; Collation of Information and Development of Plans; Scrutiny and Approval; Communication; Monitoring and Review; Risk Management.	12
IT Audit				
19	Cyber-Security	Risk Register (14)	Scope to be determined	15
20	Office 365	Risk Register (14)	Review of the implementation of Office 365	15
Other Work				
21	Follow up reviews	Ongoing		10
22	Management	Ongoing		20
23	Head of Audit	Ongoing		24
TOTAL AUDIT DAYS				321

Appendix B – Key Performance Indicators for 2021/22 Plan

	Objective	Measure
1	Achieve the audits allocated to the Contractor for each quarter on a timely basis.	Each quarter's allocated audits to be completed to draft report stage within a month of the end of the quarter (Subject to agreed changes with the Finance Director).
2	Achieve the total annual audits allocated to the Contractor on a timely basis.	All allocated audits for the year to be completed to draft report stage within a month of the 31st March of each year.
3	Notification of planned audits to Key Contacts at the Council.	Council Officers involved in the audit to be notified of the start date not less than two weeks in advance.
4	Issue audit brief.	Linked with the above one - Audit brief to be issued to the Officers involved for comment and approach at least two weeks prior to commencement date of each audit.
5	Conduct exit meetings.	Exit meeting are to be conducted with key contacts on all engagements.
6	Produce final report.	To be produced and issued with 10 working days of receipt of management response to the draft.
7	Produce quarterly assurance report.	Committee reports prepared and shared with Finance Director three weeks before the date of the Committee meeting.
8	Produce annual report.	Annual Report to be prepared and shared with Finance Director three weeks before the date of the Committee meeting.
9	Monthly meetings to be held with the Finance Director.	Monitoring feedback received by Officers. Discuss progress or emerging risks during monthly meetings.