

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**EXECUTIVE MANAGEMENT TEAM'S
REPORT TO**

Audit & Standards Committee
19 April 2021

Report Title: Internal Audit Plan 2021/22

Submitted by: Chief Internal Auditor

Portfolios: Finance and Efficiency

Ward(s) affected: All

Purpose of the Report

To inform Members of the proposed Internal Audit Plan for 2021/22 and to seek their approval on its contents

Recommendation

That

1. In accordance with the Committee's terms of reference, the Internal Audit Plan for 2021/22 be approved.
2. The Internal Audit Charter for 2021/22 which sets out how the plan will be delivered be approved.
3. The Committee agree to receive quarterly reports on the delivery of the assignments within the plan and on the implementation of actions arising.

Reasons

The Accounts and Audit Regulations include the statutory requirement for the provision of an adequate and effective internal audit function. The Public Sector Internal Audit Standards (PSIAS) place a duty on Internal Audit to plan effectively to ensure it contributes to the Council's objectives at strategic and operational levels. Planning also enables Internal Audit to demonstrate that they are making the best use of available resources.

1. **Background**

- 1.1 The primary purpose of an Internal Audit service is to provide an independent, objective assurance and consulting service to the organisation; and through the efficient delivery of this service seeks to add value and improve the organisation's operations and controls to effectively deliver the council's Strategic Priorities. Internal Audit assists the organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. Internal Audit is an independent appraisal function within the Borough Council under the control of the Head of Finance (Section 151 Officer).
- 1.2 The Public Sector Internal Audit Standards (PSIAS) apply to all internal audit service providers, whether in-house, shared services or outsourced. Assessment against the Standards provides assurance that the service is being delivered to a satisfactory level and in conformance to the standards.

- 1.3 The Accounts and Audit Regulations include the statutory requirement for the provision of an adequate and effective internal audit function and they specify that compliance with the relevant standards is required to demonstrate an appropriate standard of audit provision. The requirement to produce an audit plan is also specified in the Standards.

2. **Issues**

- 2.1 The Internal Audit Plan for 2021/22 (Appendix A) has been produced by Stoke-on-Trent City Council who have an agreement in place to provide the Borough Council's Internal Audit service and undertake the role of Chief Internal Auditor as defined by the PSIAS.
- 2.2 The annual Internal Audit Plan for 2021/22 outlines the audits that are planned for the coming financial year and has been produced using a risk based approach. The results of this work will contribute to the annual internal audit opinion, which will then be included within the Annual Governance Statement (AGS).
- 2.3 The council's Internal Audit Charter sets out how the Internal Audit service will be delivered and this has been reviewed as part of producing the latest internal audit plan. To demonstrate compliance with the Public Sector Internal Audit Standards (PSIAS) the internal audit activity must be formally defined in an Internal Audit Charter. The 2020/21 Charter has been reviewed and remains fit for purpose. The Committee are therefore asked to approve this Charter, at Appendix B.
- 2.4 The internal audit service focuses on the way in which the key risks faced by the services and ultimately the council can be incorporated and addressed through the planned reviews set out in the proposed plan. In exploring the areas to include within the 2021/22 plan a number of factors have been considered. These include the strategic risks faced by the council and also operational risks that its service areas are facing in the context of the objectives (both strategic and operational) they are striving to achieve. It also includes the controls that are currently in place and therefore the level of internal audit coverage that is appropriate for these areas of the business. A key objective has been to produce a plan that is aligned to the council's objectives and perceived risks. This approach acknowledges the council's risk management framework and open and forthright discussions have taken place with senior officers.
- 2.5 A risk assessment methodology continues to be developed in order to better inform the audit planning process. A significant factor within the audit planning process is the recognition and identification of emerging issues at both local and national level. Topical issues are monitored and tracked throughout the year by the Audit Team and, where relevant, highlighted for consideration or review. The primary focus of the plan for 2021/22 is to deliver the audits not undertaken during 2020/21 due to the ongoing corona virus pandemic. Whilst there remains some risk that the continued restrictions will have an impact on the planned work for 2021/22 it is important that a plan is put into place to give direction to the internal audit service and it is a requirement of the PSIAS.
- 2.6 Executive Directors have provided valuable input into the plan based on their knowledge of key risk areas. The scope of each audit will be defined in further detail following a more detailed risk assessment to be undertaken before each audit and an assignment brief will be produced to identify the key objectives of each audit. This will present a further opportunity for Executive Directors and Heads of Service to provide feedback on the proposed scope of work.

- 2.7 The planning and delivery of a robust audit plan ensures that an annual opinion and overall level of assurance can be provided by the Chief Internal Auditor to those charged with governance, thereby complying with constitutional requirements and sector standards. This opinion is one of the elements of the assurance framework which is reported in the annual governance statement.
- 2.8 In addition to the Internal Audit service, Stoke-on-Trent City Council also provide Fraud Investigation services to the council. This allows the service to focus on both proactive and reactive fraud work, with the primary aim of detecting (e.g. data-matching exercises), investigating and preventing fraud and where appropriate strengthen controls. The Council also continues to work with Stoke-on-Trent City Council to develop a Staffordshire wide partnership approach to counter fraud which includes joint working and data-matching.
- 2.9 Throughout the year the work programme at Appendix A will be reviewed, and detailed quarterly work programmes produced. Progress will be measured in order to report on the delivery of the audit plan. This will provide the opportunity to report on any ongoing impact of the pandemic on the internal audit service.
- 2.10 For assurance on key financial systems that have previously been assessed as Well or Adequately Controlled, the approach will be to undertake a health-check audit. A health-check provides a snapshot of key aspects and controls of a system, and explores the measures in place to ensure procedures; processes and management are in place to effectively achieve its objectives. This approach is the most efficient way for internal audit to provide assurance on well controlled systems and ensures available resources are used as efficiently as possible.
- 2.11 As audit resources are finite, it is important to target these resources at areas considered to be high risk (where risk includes potential impact on the delivery of the council's objectives) and high priority, ahead of medium/low ranked audits. In this way the audit resource will be most efficiently utilised and will produce the greatest benefit. The plan will be regularly monitored and where necessary revised to take into account both unforeseen and new developments. Whilst the audit plan must be detailed enough to identify in advance the specific areas to be audited it must also remain flexible enough to cope with unforeseen events and must reflect the changing risks and priorities of the council. Any variations or developments; significant matters that jeopardise the delivery of the plan or require changes to the plan will be reported to the Audit and Standards Committee at the earliest opportunity. Where requests are received to undertake consulting engagements, consideration will be given to their potential to improve the management of risks, to add value and to improve the council's operations.

3. **Proposal**

- 3.1 In agreeing the proposed Audit Plan for 2021/22, Members are agreeing to a review of all areas listed in Appendix A.
- 3.2 Once agreed the plan will be translated into an operational plan detailing the audit assignments to be carried out, the purpose of each assignment and the allocation of resources. Each assignment will have clear objectives and scope to be delivered within the allocated resources and will be supervised for quality and consistency.

4. **Reasons for Proposed Solution**

- 4.1 By agreeing to the proposed plan the Audit & Standards Committee are supporting the Internal Audit Section in fulfilling its responsibility to plan effectively and ensure that it contributes to the Council's objectives at strategic and operational levels. The plan will also enable Internal

Audit to demonstrate that they are making the best use of their resources balanced against the perceived risks to the Council.

5. **Options Considered**

5.1 The audit plan for 2021/22 will be the second year that a full internal audit service will be delivered by Stoke-on-Trent City Council. Due to the changing working environment as a result of the pandemic which has impacted on the council's risk profile, it is proposed that a revised IT audit needs assessment is undertaken to assess the requirement for IT audit work over the next 3 years. Consideration can then be given to the skills required and how these audits are best delivered. The provision of IT Audit skills is a specialist area and one that is constantly changing. However, it is anticipated the majority of IT audit needs can be delivered internally by Stoke-on-Trent City Council auditors.

6. **Legal and Statutory Implications**

6.1 The Accounts and Audit (England) Regulations 2015, state that "A relevant authority [the Council] 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." (para 5(1)).

6.2 Section 151 of the Local Government Act 1972 states that every local authority should make arrangements *for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs*'. CIPFA has defined '*proper administration*' in that it should include '*compliance with the statutory requirements for accounting and internal audit*'.

6.3 The activities of Internal Audit are planned in accordance with the Accounts and Audit Regulations which place a duty upon the Chief Internal Auditor to report to members on a regular basis. By acting upon recommendations within internal audit reports, the council is demonstrating its commitment to maintain an adequate and effective system of internal control, as required by these regulations. Satisfactory delivery of the audit plan assists the Head of Finance (Section 151 Officer), in discharging her duties under section 151 of the Local Government Act 1972.

7. **Equality Impact Assessment**

7.1 There are no equality impact issues identified from the proposal.

8. **Financial and Resource Implications**

8.1 The work outlined for 2021/22 will be carried out within the agreed price specified in the agreement with Stoke-on-Trent City Council for Internal Audit services which is in line with the budgeted cost. The financial implications resulting from the recommendations made within audit reports will be highlighted within individual reports wherever possible. It is the responsibility of managers receiving audit reports to take account of these financial implications, and to take the appropriate action.

8.2 Internal Audit is directed by the Chief Internal Auditor provided through a service agreement by Stoke-on-Trent City Council. This agreement provides the Borough Council with access to a range of internal audit staff with specific areas of experience and knowledge. The number

of days to be delivered through this agreement has been set in line with previous years and has been allocated between the areas listed at 9.3 below. As mentioned in para 2.8 above, the internal audit service also work closely with the Corporate Fraud service to ensure a robust approach to fraud prevention and detection.

8.3 Available (direct) days will be allocated over the following areas:

- Proactive/planned assurance
- Assurance to External Stakeholders
- Advice & support to achieve improvements
- Verification of completed audit recommendations
- Proactive fraud prevention
- Third Party requests
- Ad hoc requests for assistance/consultancy/investigation

8.4 The following categories have been identified as the basis for inclusion in this year's work plan:-

- Work identified as still relevant from 2020/21 and in progress at year end
- Key systems assurance
- Funding body requirement as requested
- Priority from risk assessment of service area
- Management request/Discussions with management
- Emerging risks / changes to the council's systems and controls

9. **Major Risks**

9.1 The key risk to be considered in reviewing the attached plan is that the areas proposed for coverage do not sufficiently address the key risks faced by the council and therefore the independent and objective assurance provided by Internal Audit is, or is perceived to be, compromised. The consequence of which is that opportunities to improve the council's system of internal controls, governance framework and the delivery of its objectives are not identified or acted upon.

9.2 This risk is managed through a combination of the governance and reporting frameworks within which Internal Audit operates and the overview carried out by this Committee. No risks have been identified that are not within acceptable tolerances. Continual review of the work contained within the audit plan ensures that where necessary adjustments are made to provide the most appropriate coverage.

9.3 Due to the ongoing restrictions on the council's normal business operations due to the Covid 19 pandemic, there is a risk that the audit plan cannot be delivered in full as set out. This may be due to loss of audit staff, lack of access to conduct audit work and frontline staff being unable to prioritise audit reviews. It is therefore proposed that the plan is kept under careful review and updates provided to the Audit & Standards Committee as part of regular quarterly monitoring reports.

10. **UN Sustainable Development Goals and Climate Change Implications**

10.1 The Internal Audit and Counter Fraud Arrangement via Stoke-on-Trent City Council and the Fraud Hub supports UNSG and Climate Change objectives in a number of ways. Principally, through partnership working and supporting sustainable cities and communities via the correct use of public monies. The following UNSGs are supported.



11. **Key Decision Information**

11.1 This report is not a key decision as defined by the Council's Constitution.

12. **Earlier Cabinet/Committee Resolutions**

12.1 This report is not in reference to previous Cabinet or Committee resolutions.

13. **List of Appendices**

13.1 Appendix A – Proposed Internal Audit Plan 2021/22

13.2 Appendix B – Internal Audit Charter 2021/22

14. **Background Papers**

14.1 No background papers are required for this report.