

**Report to** Audit committee  
10 March 2020  
**Report of** Director of resources  
**Subject** Internal Audit Plan 2020-21

**Item**

**7**

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**Purpose**

To agree the internal audit outline plan for 2020-21

**Recommendation**

To endorse the draft Internal Audit Plan

**Corporate and service priorities**

The report helps to meet the corporate priority a healthy organisation

**Financial implications**

None

**Ward/s:** All Wards

**Cabinet member:** Councillor Kendrick - Resources

**Contact officers**

Anton Bull, director of resources

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**Background documents**

None

# Report

## Background

1. CIPFA and the Chartered Institute of Internal Auditors launched a common set of Public Sector Internal Audit Standards (PSIAS) in April 2013. The PSIAS set out the standard for internal audit across the public sector and is regularly updated to reflect current best practice.
2. The principles in the PSIAS are consistent with the previous CIPFA code of practice for internal audit which applied across local government. They include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the 'Board'; for the purposes of the key duties laid out in the PSIAS, the Audit Committee is effectively the 'Board' for the Council.
3. Under the Local Government Act, the Council's Section 151 officer is responsible for ensuring that there are arrangements in place for the proper administration of the Authority's financial affairs. The work of Internal Audit is therefore directly relevant to these responsibilities.

## Mission

4. PSIAS Performance Standard updated in 2017 states the mission of internal audit as:

*"To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight."*

## Definition

5. PSIAS Performance Standard updated in 2017 defines internal audit as:

*"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."*

## Audit Planning

6. PSIAS Performance Standard updated in 2017 – Planning states that:

*"The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."*

7. The standards refer to the need for the risk-based plan to consider the organisation's risk management framework, and to take into account the requirement to produce an annual internal audit opinion and the assurance framework.
8. Within the Council, the Chief Audit Executive will be the internal auditor manager, for the purposes of the PSIAS. The council is currently recruiting to

this role on a one-year temporary basis and will then recruit on a permanent basis. Performance Standard 2450 – Overall Opinions states that:

*“The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.”*

9. The risk-based plan therefore needs to include an appropriate and comprehensive range of work, which is sufficiently robust to confirm that the Audit Committee can rely upon all assurances provided as part of the system of internal audit. The internal auditor manager will ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the internal audit plan.

## The planning process

10. 2020/21 is a transition year as the service from LGSS comes to an end and the council insources the internal audit function. Two internal auditors will transfer across in April 2020 and the council is recruiting an internal audit manager. This will allow the council to have around 400 days in the internal audit programme with spare capacity for consultancy and advisory work.
11. This internal audit plan will therefore develop further once the internal audit manager is appointed. The corporate leadership team are particularly keen to see more consultancy/advice from internal audit to allow good governance to be designed in from the beginning of any changes.
12. Appendix 1 shows the internal audit days used by similar local authorities and the capacity at the council compares well to these authorities.
13. At this stage whilst recruitment of an internal audit manager is ongoing a high-level plan has been developed and will be refined once the internal audit manager starts. The plan will be formatted around key areas as the table below shows:

	<b>Controls</b>	<b>Governance</b>	<b>Risk Management</b>
<b>Assurance</b>			
<b>Consultancy/advice</b>			
<b>Responsive</b>			
<b>Follow-up</b>			

14. The audit plan is intended to remain dynamic in nature and will be reviewed and re-aligned on a regular basis to take account of new, emerging and changing risks and priorities. Resources will then be re-prioritised towards the areas of highest risk. The audit plan will be reported to Audit Committee every

quarter, and should be reviewed and robustly challenged by the Corporate Leadership Team, the S151 Officer and the Audit Committee.

15. In order to develop the audit plan, there must be a sound understanding of the risks facing the Council. The Internal Audit risk assessment of the authority is updated during the year and used to form the basis of the Internal Audit plan, alongside the Corporate Risk Register. The Internal Audit Manager will also engage with senior managers to ensure that known and emerging risks are considered in annual audit planning.
16. The Corporate Leadership Team have put forward the high level plan based on discussion of the key areas of risk for the council.

## **The annual plan**

17. The Internal Audit Plan for the next year must be sufficiently flexible to enable assurance to be obtained over current risk areas, as well as emerging risks, and those risks which are yet to be identified.
18. Inevitably, the potential for risks is increased during periods of change. For instance, reductions or high levels of turnover in the workforce provide an opportunity for controls to break down – as well as an opportunity to consider new and more efficient ways of organising people, systems and processes, without adversely impacting internal control. To reflect this risk, the Audit Plan contains an allocation of time for advice and guidance. Reviews of the key financial systems and compliance audits will provide assurance that the basic governance and control arrangements are continuing to operate effectively, minimising the risks of misappropriation, loss and error. Maintaining a well communicated anti-fraud framework with clear guidance to encourage whistleblowing remains critical to good governance.
19. The Audit Plan reflects the environment in which public sector audit operates, recognising that this has changed considerably over the past few years audit coverage is intended to ensure stakeholders receive a valuable assurance and that the audit service tangibly adds value to the organisation.
20. Maintaining an Audit Plan which is dynamic, challenging and prioritised based on the organisation's risks is not a new concept; however, in the current environment it is ever more critical if Internal Audit is to help the Council to respond effectively to the scale of change required in 2020/21 and beyond.

## Appendix 1 – comparison to other local authorities

<b>Internal Audit days</b>	<b>Comparison to bench mark authorities as of 17/2/2020</b>
<b>Authority</b>	<b>Days</b>
Norwich City Council	<b>450</b> days
City of Lincoln Council	For 2019/20 the Council's Internal Audit Plan is <b>360</b> Days – with an additional 40 days for testing of the Housing Subsidy claim on behalf of External Audit. As part of efficiency savings the plan has been reduced.
Preston City Council	The Internal Audit Plan for 2019/20 is based on a resource of <b>455</b> audit days. This is the number of chargeable days available within the existing budget (after deducting annual leave and other non-chargeable time).
Exeter City Council	The Internal audit service has <b>470</b> days within the plan. Of those days, <b>138</b> are fixed days for general administration, follow-ups and other activities conducted by Internal Audit, such as National Fraud Initiative co-ordination, administration of RIPA, review of hospitality and disclosures, Disabled Facilities Grant audit (terms of grant conditions) and Public Sector Internal Audit Standards Peer review. A small amount of time is set aside as a contingency to allow for unplanned work such as frauds. The remaining <b>332</b> days will be used for the planned work
Chesterfield Borough Council	Total of <b>560 internal audit days</b>
Harlow District Council	<b>341</b> days allocated
Stevenage Borough Council	<b>350</b> days allocated
Worcester City Council	<b>320</b> days
Hastings Borough Council	Specifies areas but not days allocated
Welwyn Hatfield Borough Council	<b>310</b> days

## Appendix 2 – Draft internal audit plan

Draft Internal Audit Plan 2020/21					
Audit	2019/20	Assurance Block	Theme	Directorate	Why?
<b>Anti-Fraud and Corruption</b>					
<i>Allocation of time for risk assessment and investigation of fraud and theft referrals. Should significant fraud be identified in-year management will be consulted as to the best way to investigate as well as, where appropriate, how to improve the control environment to reduce the risk of re-occurrence. The National Fraud Initiative is a national data matching exercise &amp; internal audit will coordinate the data cut on behalf of Norwich City Council.</i>					
National Fraud Initiative	20	<b>Responsive</b>	<b>Controls Governance</b>	Cross-Cutting	Management of statutory National Fraud Initiative.
Fraud Investigations	10	<b>Responsive</b>	<b>Controls Governance</b>	Cross-Cutting	Allocation of time for risk assessment and investigation of fraud and theft referrals. Should significant fraud be identified in-year CLT will be consulted as to the best way to investigate as well as, where appropriate, how to improve the control environment to reduce the risk of re-occurrence.
<b>Total Anti-Fraud and Corruption:</b>	<b>30</b>				
<b>Key Financial Systems</b>					
<i>Providing assurance that the Council has made arrangements for the proper administration of its financial affairs, these system audits are agreed in advance with External Audit and focus on the systems with the highest financial risk. These reviews give an opinion as to the effectiveness of financial management procedures and arrangements to ensure the integrity of accounts.</i>					
Payroll	15	<b>Assurance</b>	<b>Controls Governance</b>	Cross-Cutting	Annual assurance over Key Systems conducting transactional testing.
Housing Rents/Arrears	20	<b>Assurance</b>	<b>Controls Governance</b>	Cross-Cutting	
Housing Benefits	20	<b>Assurance</b>	<b>Controls Governance</b>	Cross-Cutting	
Council Tax	15	<b>Assurance</b>	<b>Controls Governance</b>	Cross-Cutting	

NNDR	15	<b>Assurance</b>	<b>Controls Governance</b>	Cross-Cutting	
Bank Reconciliations	10	<b>Assurance</b>	<b>Controls Governance</b>	Cross-Cutting	
Treasury Management	15	<b>Assurance</b>	<b>Controls Governance</b>	Cross-Cutting	
Other financial systems to be identified	50	<b>Assurance</b>	<b>Controls Governance</b>		
<b>Total Key Financial Systems:</b>	<b>160</b>				
<b>Strategic Risk Management</b>					
<i>Assurance over the Council's risk management framework in addition to support, advice and facilitation of strategic risk management processes.</i>					
Strategic Risk Management	15	<b>Assurance</b>	<b>Risk Management</b>	Cross-Cutting	Administration and reporting of corporate risk register and supporting documents.
Risk Management	5	<b>Consultancy /advice</b>	<b>Risk Management</b>	Cross-Cutting	Assurance over the Council's risk management framework
<b>Total Risk Management:</b>	<b>20</b>				
<b>Contracts</b>					
<i>This is a key area of risk. Effective and proportionate contract monitoring by the Council is essential to ensure good cost control (i.e. we pay what we should based on actual costs/'contract' conditions) and that expected outcomes from these contracts are achieved. Higher-risk contracts have been selected for review, incorporating open-book assurance where possible to ensure that these are operating in accordance with the terms of the contracts and value for money is being achieved by contract management activities. Work to examine the commissioning process as a whole is also included in this assurance block.</i>					
Contract Management	20	<b>Assurance</b>	<b>Controls Risk Management</b>	Cross-Cutting	Based on assessment of risk and value e.g. joint venture contracts, concentrating on contract monitoring and open book reviews where appropriate.
Joint Ventures	50	<b>Consultancy /advice</b>	<b>Risk Management Controls Governance</b>	Cross-Cutting	Provide guidance and advice during the process of bringing back 3 JV's (under 5 contracts) to the Council.

<b>Total Contracts:</b>	<b>70</b>				
<b>Risk-Based Audits &amp; Director Requests</b>					
<p><i>These are areas of risk specifically identified by key officers during the consultation process and have been requested to be included in the 2018/19 Audit Plan. This block also includes areas where the Audit Committee require additional assurances. Assurance over key organisational risks and requests for specific audit reviews by individual Directors will not only give directors the assurance they have requested but will support the annual Head of Internal Audit opinion across the control environment.</i></p>					
Wholly owned limited companies	15	<b>Assurance</b>	<b>Controls Governance</b>	Cross-Cutting	Review the suite of assurances required by Norwich CC to ensure governance arrangements in place at wholly owned companies are effective & proportionate to ensure NoCC objectives are achieved and interests protected. This could be 3PA and reliance on wholly owned company internal auditors & company director assurance statements.
Commercial property investment	10	<b>Consultancy /advice</b>	<b>Risk Management</b>		CLT request
<b>Total Risk-Based Audits:</b>	<b>25</b>				
<b>Key Policies &amp; Procedures</b>					
<p><i>Effective policies and procedures drive the culture and risk appetite of the organisation and ensure key control principles are captured. They should review annually to ensure they remain proportionate and effective.</i></p>					
Annual Key Policies & Procedures Review	5	<b>Assurance</b>	<b>Governance</b>	Cross-Cutting	Following previous year audit reviews of core policies and procedures, this review will provide assurance that there is an effective framework to ensure key policies are reviewed, updated and effectively communicated.



Business continuity plan and procedures	5	Consultancy/advice	Risk Management		CLT request
Emergency planning and resilience procedures	5	Consultancy/advice	Risk Management		CLT request
<b>Total Policies &amp; Procedures:</b>	<b>15</b>				
<b>Compliance</b>					
<i>Compliance checks across the organisation to provide assurance on whether critical controls within key policies and procedures are routinely complied with in practice. Proposed coverage is underpinned by an assessment of the Council's framework of controls and findings from previous audit work.</i>					
Implementing/assessing the council against the new Financial Management Code	5	Consultancy/advice	Assurance		CLT Request
New starters and leavers procedures	5	Assurance	Controls		CLT request
GDPR Governance and compliance	5	Assurance	Controls		CLT request
Business cases	5	Assurance	Governance		CLT request
Equality impact assessments	5	Assurance	Governance		CLT request
Licensing procedures	5	Assurance	Governance		CLT request
Other compliance checks to be identified	15	Consultancy/advice	Governance		
<b>Total Compliance:</b>	<b>45</b>				

<b>ICT and Information Governance</b>					
<i>Reviews of key risk areas around information governance and information security, as well as coverage of key ICT risk areas such as major ICT failure.</i>					
ICT Audits to be identified		<b>Assurance</b>	<b>Controls</b>		To be identified with the internal audit manager
<b>Total ICT and Information Governance:</b>	<b>25</b>				
<b>Governance</b>					
Attend Information Governance Group	5	<b>Consultancy/advice</b>	<b>Governance</b>	Cross-Cutting	Attending corporate information and assurance group.
Attend Data Breach Response	5	<b>Consultancy/advice</b>	<b>Governance</b>	Cross-Cutting	Reviewing effectiveness of internal controls.
Attend/facilitate Corporate Governance and RM Group	5	<b>Consultancy/advice</b>	<b>Governance</b>	Cross-Cutting	Attend Corporate Governance & RM Group; facilitate the agenda items covering Risk Management.
Annual Governance Statement	10	<b>Assurance</b>	<b>Governance</b>	Cross-Cutting	Assurance mapping and draft to accompany statement of accounts
<b>Total Governance:</b>	<b>25</b>				
<b>Grant assurance</b>					
<i>Provision of assurances over grant funding from central government where a Head of Audit opinion is required. These are becoming more in number each year and management will be kept informed of new requirements via the normal reporting mechanisms.</i>					
Disabled facility grant	10	<b>Assurance</b>	<b>Controls</b>		Certification to Norfolk CC - to be completed by 31st May 2020
Grants	5	<b>Assurance</b>	<b>Controls</b>		CLT Request
<b>Total Grant assurance:</b>	<b>15</b>				

<b>Advice &amp; Guidance</b>					
Ad -Hoc Advice & Guidance	15	<b>Consultancy/advice</b>	<b>Governance</b>	Cross-Cutting	Providing support and guidance to staff on ad-hoc queries, and internal controls.
Follow-Ups of Agreed Actions	20	<b>Follow Up</b>	<b>Governance</b>	Cross-Cutting	Confirming agreed actions have been implemented to reduce key organisational risks.
Cross cutting charges	5				CLT request
<b>Total Advice &amp; Guidance:</b>	<b>40</b>				
<b>Reporting</b>					
Committee Reporting	15	<b>Assurance</b>	<b>Governance</b>	Cross-Cutting	Reporting to Audit Committee.
Management Reporting	10	<b>Assurance</b>	<b>Governance</b>	Cross-Cutting	Reporting to CLT, Director of Business Services and S151 Officer.
Audit Plan	10	<b>Assurance</b>	<b>Governance</b>	Cross-Cutting	Development and full consultation on the Annual Internal Audit Plan and any in-year revisions / updates.
<b>Total Reporting:</b>	<b>35</b>				
<b>Operational Plan Total - 2020/21</b>	<b>505</b>				