

Report to Audit Committee
9 March 2021
Report of Interim Audit Manager
Subject Internal Audit Plan 2021-22

Item

9

Purpose

To agree the draft internal audit plan for 2021-22.

Recommendation

To endorse the draft Internal Audit Plan

Corporate and service priorities

The report helps to meet support corporate priorities through supporting a healthy organisation.

Ward/s: All wards

Cabinet member: Councillor Kendrick – Resources

Contact officers

Gavin Jones, Interim Audit Manager

Background documents

None.

1. Background

- 1.1 The Public Sector Internal Audit Standards (PSIAS) established by CIPFA and the Chartered Institute of Internal Auditors set out the standard for internal audit across the public sector and is regularly updated to reflect current best practice.
- 1.2 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.
- 1.3 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.

2. Mission

- 2.1 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."

3. Definition

- 3.1 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."

4. Audit Planning

- 4.1 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."

- 4.2 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.

- 4.3 Within the council, the Chief Audit Executive will be the internal audit manager, for the purposes of the PSIAS.

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.”

- 4.4 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.

5. Planning Process

- 5.1 The draft audit plan for 2021-22 has been put together following consultation with all directors and relevant heads of service during January.
- 5.2 The plan reflects a drive to align coverage more closely to risk and corporate priorities rather than traditional compliance work.
- 5.3 Internal audit coverage at the council has traditionally been focused on compliance assurance work particularly around a suite of key financial systems. This work does not appear to be risk based and offers limited added value. Audit work undertaken during 2020-21 to provide assurance that financial systems are operating effectively during business pressures and disruptions associated with the Covid-19 pandemic has not as yet identified any significant control weaknesses. Whilst there will always be a requirement to include a basic level of assurance on key financial areas, there is an opportunity to reduce the current volume/emphasis of coverage carried out each year to free up audit work in other areas.
- 5.4 The chief executive has expressed a strong desire for audit to be involved in a more proactive advisory capacity rather than just opinion assignments. This is reflected with a strong balance of consultancy work alongside assurance risk based coverage. This will need proactive inclusion of internal audit in areas identified for advice e.g. towns’ deal.

6. Resources

- 6.1 The draft plan focuses on fewer audits, involving more days. The level and quality of resource is subject to a service review of the function during the year and needs to reflect the challenges of ‘skilling up’ from traditional compliance based reviews. The audit team currently consists of three FTE supplemented by bought in IT audit resource of approximately 30 days.

7. Draft Audit Plan

7.1 The draft audit plan is shown below together with the status of audit work being

| Audit | | Days | |
|------------------------------------|----------------------------------------------------------|-------------|----|
| Anti-fraud & corruption | National Fraud Initiative (NFI) | Responsive | 20 |
| | Investigations Contingency | Responsive | 10 |
| Key Financial Systems | Payroll | Assurance | 10 |
| | Housing Rent/Arrears | Assurance | 15 |
| | Housing Benefits | Assurance | 15 |
| | Council Tax | Assurance | 10 |
| | National Non Domestic Rates (NNDR) | Assurance | 10 |
| | Capital Accounting | Assurance | 10 |
| | Accounts Payable | Assurance | 10 |
| | Debt Recovery | Assurance | 10 |
| | Treasury Management | Assurance | 10 |
| Risk Management | Administration of Registers & Policy | Consultancy | 15 |
| | Risk Management | Assurance | 15 |
| Contract Management | Environmental Services | Assurance | 20 |
| | Joint Ventures Insourcing | Consultancy | 45 |
| | Consultancy contingency | Consultancy | 15 |
| IT Audit | IT Governance | Assurance | 10 |
| | Housing & Tenancy Application phase 2 pre implementation | Assurance | 10 |
| | To be determined | Assurance | 10 |
| Service Reviews | Health & Safety | Assurance | 15 |
| | Social Housing Delivery Programme | Assurance | 20 |
| | Towns Fund Deal | Consultancy | 20 |
| | Capital Programme Management | Assurance | 20 |
| | New Financial Management Code | Consultancy | 10 |
| | New Housing System | Consultancy | 10 |
| IR35 Compliance | Assurance | 10 | |
| Governance | Information Governance Group | Consultancy | 5 |
| | Data Breach Response | Consultancy | 5 |
| | Resources, Performance & Delivery Board | Consultancy | 5 |
| | Annual Governance Statement | Consultancy | 10 |
| Grants | Grants assurance | Assurance | 20 |
| | Business Support Grants | Assurance | 20 |

| Audit | | Days | |
|------------------------------|---------------------------------|-------------------|------------|
| Advice & Guidance | Ad hoc Advice & Guidance | Consultancy | 15 |
| | Follow Up Audit Recommendations | Assurance | 20 |
| Reporting | Committee Reporting | Consultancy | 10 |
| | Management Reporting | Consultancy | 10 |
| | Audit Plan | Consultancy | 10 |
| | | Total Days | 505 |

8. Summary

8.1 Anti-fraud & Corruption

The council will be required to review a new set of NFI data matches issued in February/March 2020-21. Internal Audit will oversee the investigations of high risks matches by services and ensure that any underlying weaknesses identified are reported and addressed.

8.2 Key Financial Systems

As previously reported, time allocated to carry out compliance testing to designated key financial systems has been reduced to accommodate more risk based service reviews and corporate priorities. On this basis, key systems will be carried out cyclically depending on area and associated risk. For example some areas such as payroll and accounts payable may continue to be carried out each year although specific areas will be phased within this coverage, other areas will be carried out every 2-3 years. This methodology will be flexible and attentive to changing risks such as new system developments and/or adverse findings from previous reviews.

8.3 Risk Management

Support will continue to be provided to administer and report on the corporate risk registers and to ensure that the new agreed processes are observed. Support is also available to directors in respect of their service risk registers and to oversee that any significant issues or common themes are fed through to the corporate process.

Time has been set aside for an independent audit review on the risk management process later in the year as processes 'bed in'. This will be undertaken and managed by officers that have not been involved in the setup of existing processes.

8.4 Contract Management

Contract management is perceived as an area where the council is seeking to improve competencies and ensure that contract performance is in line with aspirations and incentivised to continually improve. To support this, internal audit will review management procedures for individual major contracts each year. In light of recent audit findings in a couple of areas, it is intended to carry out early reviews on arrangements for the joint venture contracts as these are brought in

house through Norwich City Services Ltd (NCSL). The first of these to go live is the contract for environmental services which will start from April 2021. Audit coverage will be provisionally planned for the third quarter of the year, allowing for processes to 'bed in' from April.

Consultancy time has been allocated to provide and support on processes, training and procedures at the request of the business relationship & procurement manager. As more audit work is completed, audit will ensure that common themes for improvement are identified and fed through to training and service reviews. Audit support will also continue to be provided as a 'critical friend role' at board and project level on the continuing development to prepare for further insourcing of joint ventures to be managed by NCSL.

8.5 IT Audit

Specialist IT audit will continue to be provided through externally procured resource. Coverage will include a review of IT governance and in particular reviewing the challenges for managing the IT resource in line with corporate and transformational priorities whilst continuing to operate business as usual in a secure environment.

Two other reviews will also be undertaken on the basis of risk. A review of further phases of the development of the new housing and tenancy application has been provisionally included though this will be determined by the status of the project.

8.6 Service reviews

In line with the change in focus of audit reviews towards coverage aligned to corporate priorities and risk, a mixture of consultancy and assurance reviews is programmed to review the council's ambitious programmes on social housing delivery and the delivery of the programme of projects in respect of the towns deal. Audit specifications and the nature of consultancy will be determined in consultation with directors.

Audit will also provide an independent consultancy review on Finance's self-assessment against the implementation of the new financial code of practice

Assurance reviews will be undertaken on health and safety and IR35 compliance (tax legislation relating to agency/consultancy working) at the request of directors. A review of capital programme management has also been included although the nature of this work has yet to be determined and will be agreed with the head of finance, audit & risk.

8.7 Other work

Other consultancy work included in the plan remains largely unchanged from previous years. The audit manager will be a core member of the newly formulated resources, performance and delivery board which replaces the corporate governance group and will include the director of resources (s151) and monitoring officer amongst other key officers.

Grants assurance work will now include the new green homes grant as well as the disabled facilities grant. There will also continue to be further grants assurance work

in the form of periodic spot testing associated with the extension of support grants to businesses in light of the continuing difficulties associated with the covid-19 pandemic. An assurance group involving the audit manager, the head of finance, audit & risk, and revenues & benefits operations manager has been set up monthly to oversee post assurance work to identify fraud and error, including the timely review of any high risk data matches pertaining from the National Fraud Initiative and to fulfil reporting requirements to the government.