

TITLE INTERNAL AUDIT PLAN 2020/21

To: Audit & Accounts Committee

Date: 24th March 2020

From: Duncan Wilkinson, Chief Internal Auditor

1. PURPOSE

- 1.1 To present the 2020/21 Internal Audit Plan to the Committee for approval.

2. BACKGROUND

- 2.1 The role of Internal Audit is to provide the Audit and Accounts Committee and management, independent assurance on the effectiveness of the controls in place to ensure that the Council's objectives are achieved. Internal Audit coverage is planned so that the focus is upon those areas and risks which will most impact upon the Council's ability to achieve these objectives.
- 2.2 This report outlines the proposed 2020/21 Internal Audit Plan (at Appendix 1). It is subject to consultation with Directors with any changes proposed highlighted to the Audit & Accounts Committee for approval.
- 2.3 Audit & Accounts Committee (A&A) will be requested to consider and comment on the contents of this report, and approve the proposed Plan as attached. Consistent with best practice the plan is flexible i.e. it is submitted to A&A at every meeting (within a progress update report) where changes can be agreed, in consultation with the 151 Officer.

3. RECOMMENDATION

The Committee is asked to note and comment on the report and approve the proposed Plan as attached at Appendix 1.

4. THE INTERNAL AUDIT PLAN

4.1 BACKGROUND

4.1.1 The Plan is developed consistent with the Public Sector Internal Audit Standards (PSIAS). The standards 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 & Accounts Committee is effectively the 'Board' for the Council.

4.1.2 Under the Local Government Act and the Accounts and Audit Regulations, the Council's Section 151 officer is responsible for ensuring that there are adequate and effective arrangements in place for Internal Audit.

4.2 AUDIT PLANNING

4.2.1 PSIAS Performance Standard 2010 – *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.”

4.2.2 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.

4.2.3 Within the Council, the Chief Audit Executive is the Chief Internal Auditor, 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.”

4.2.4 The risk-based plan therefore needs to include an appropriate and comprehensive range of work which is sufficiently robust to confirm that all assurances provided as part of the system of internal audit can be relied upon by the Audit & Accounts Committee. The Chief Internal Auditor will ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the internal audit plan.

4.3 THE PLANNING PROCESS

- 4.3.1 The Plan is based on assurance blocks that each provides an opinion over key elements of the control environment, targeted towards in-year risks, rather than a more traditional cyclical approach examining each system over a number of years. For each assurance block, the most appropriate level of coverage necessary to provide an effective annual assurance opinion and added value to the organisation has been developed.
- 4.3.2 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 & Accounts Committee every quarter, and should be reviewed and robustly challenged by the Senior Management, the Section 151 Officer and the Audit & Accounts Committee.
- 4.3.3 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. Internal Audit has also engaged with members of senior management to ensure that known and emerging risks are considered in annual audit planning. Potential audit areas identified through this process are then assessed and weighted according to the level of risk.

4.4 THE ANNUAL PLAN

- 4.4.1 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. This is particularly relevant as we move into 2020/21, with the Council continuing to evolve and transform in the face of ongoing financial challenges. To reflect this, the draft 2020/21 Plan includes a particular focus on procurement and contract management. The time allocated for these reviews has been increased by 200 days, to enable audit review of a greater number of key organisational contracts, including framework contracts, in the coming year.
- 4.4.2 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 pro-active anti-fraud 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.

- 4.4.3 The Audit Plan reflects the public sector environment, recognising that this has changed considerably over the past few years with more focus on, for example, better assurance, safeguarding and achieving best value. The planned audit coverage is intended to ensure stakeholders receive a valuable assurance and that the audit service tangibly adds value to the organisation.
- 4.4.4 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.

4.5 HOW ASSURANCE CAN BE GIVEN

As detailed above, the plan is split into both assurance blocks and directorate areas for ease of understanding as well as to demonstrate how assurance on the organisation's control environment can be given. There are a number of key assurance blocks, which are summarised below:

4.5.1 Key Financial Systems

This is the traditional area of internal audit work and very much focuses on providing the Section 151 officer assurance that "the Council has made arrangements for the proper administration of its financial affairs." With the single finance system operated across LGSS partners, LGSS Internal Audit can deliver economy of scale via core testing on systems, supported by transactional testing of individual client operations.

4.5.2 Governance and Assurance, and Risk Management

The Plan incorporates annual assurances over core elements of the organisation's overall control system, including performance management, risk management and the Council's Code of Corporate Governance. These reviews provide assurance that key policies and procedures are up to date; fit for purpose; effectively communicated; routinely complied with across the organisation; monitored and regularly improved.

4.5.3 Compliance

Compliance work is fundamental as it provides assurance across all Directorates and therefore supports the Chief Internal Auditor's annual. The proposed coverage for compliance is underpinned by an assessment of the Council's framework of controls (informed by policies and procedures) and includes those core areas where a high level of compliance is necessary for the organisation to carry out its functions properly. The work involves compliance checks across the organisation to provide assurance on whether the critical controls within the key policies and procedures are being routinely complied with in practice. This work will continue to challenge the existing controls to ensure that they are modern, effective and proportionate.

4.5.4 Value For Money

In order to address increased financial pressure on the organisation, the Council needs to ensure that it maintains a drive to achieve value for money across the entire organisation. Providing assurance over this area includes consideration of financial planning and regulation, major transformation and project management, and ensuring that outcomes are delivered as planned. In 2018/19, Internal Audit has carried out work to develop an assurance framework to identify and monitor the Council's most high-risk projects, and time was also been allocated in 2019/20 to further develop and embed this process across the Council. This work continues to ensure that good project management is embedded within the Council and that evidence is available that demonstrates that.

4.5.5 Commissioning and Contracts

Commissioning and contracts remains a key area of risk for the Council. Effective and proportionate contract monitoring is essential not only to ensure that expected outcomes are achieved, but also that the Council achieves good cost control; meaning that Cambridgeshire County Council (CCC) pays what it should, based on actual costs (or equivalent contract conditions). 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.

4.5.6 Anti-Fraud and Corruption

This is a high-risk area across the public sector. This includes both reactive and pro-active elements, along with initiatives to raise awareness of the council's anti-fraud and corruption culture and to report on the arrangements in place. In addition to the time allocation for fraud investigation work including the risk assessment process for referrals, the assurance block includes an allocation of days for pro-active fraud strategy work.

4.5.7 Key Organisational Risks and Director Requests

This section of the plan covers areas that have been identified as key organisational risk areas, by Internal Audit's risk assessment process and/or by individual Directors. This is delivered through both periodic reviews of risks and audit testing of that data as agreed with Joint Management Team (JMT) in 2019.

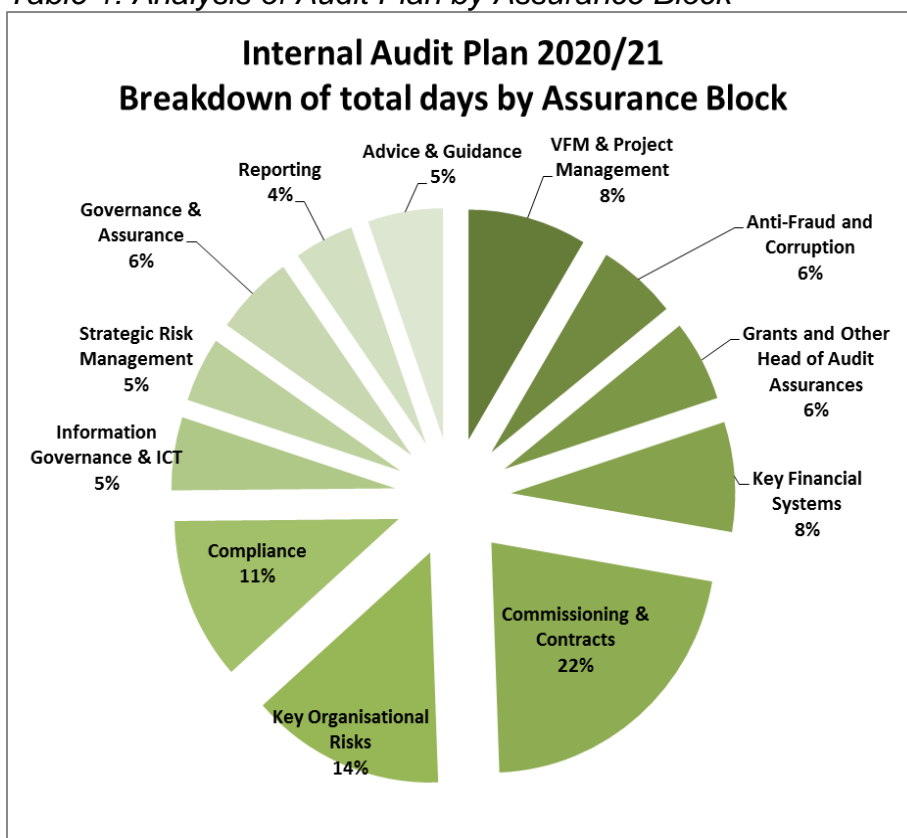
- 4.6 Information and Communications Technology (ICT) and Information Governance
The ICT assurance block includes time for reviews of key ICT risk areas, as well as time for reviews of key risk areas around information governance and information security.

4.7 PLAN SUMMARY AND RESOURCES

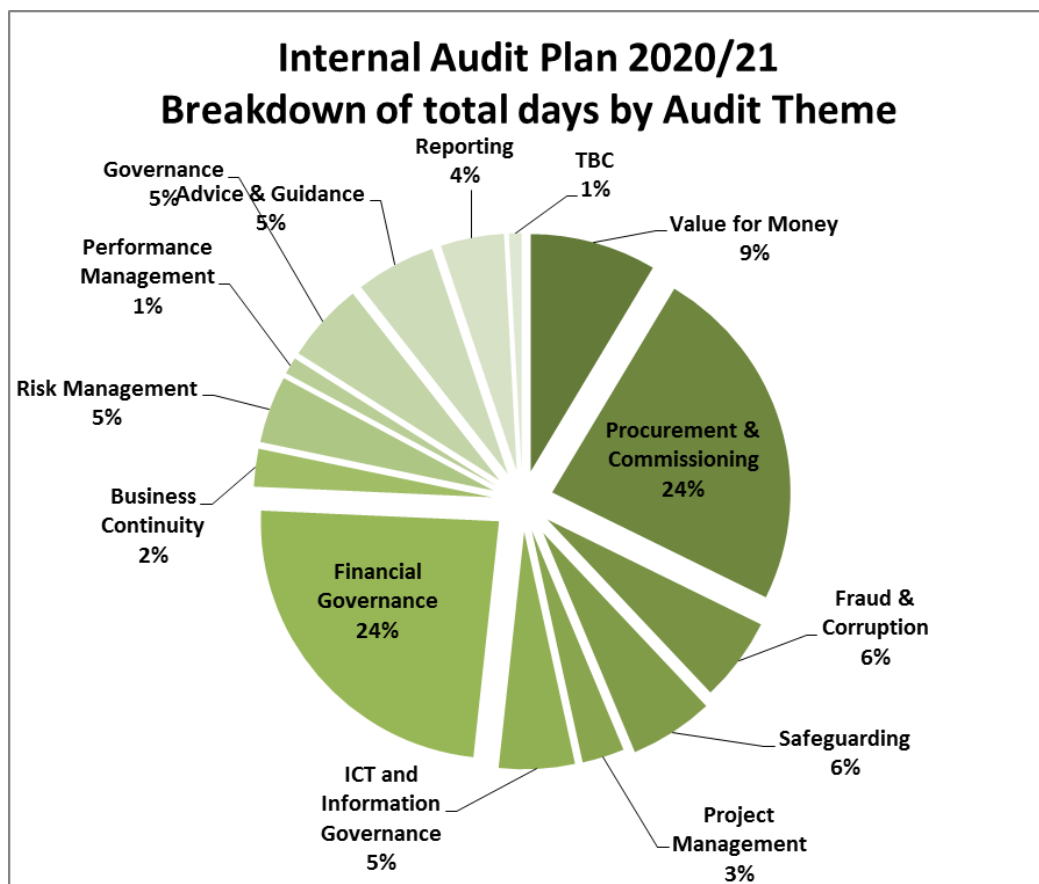
4.7.1 In summary, the Audit Plan maintains a focus on risk-based and compliance audits as well as providing assurance on key financial systems. This reflects the need to focus on the management of emerging risks and to ensure the continued operation of key controls within the Council's governance arrangements, systems and processes.

4.7.2 The Audit Plan is proposed as 1,750 days, an increase of 200 days compared to the 2018/19 Plan. The additional 200 days have been allocated to the 'Commissioning & Contracts' assurance block, to allow audit review of a higher number of major corporate contracts and procurements and provide further assurance over this key risk area.

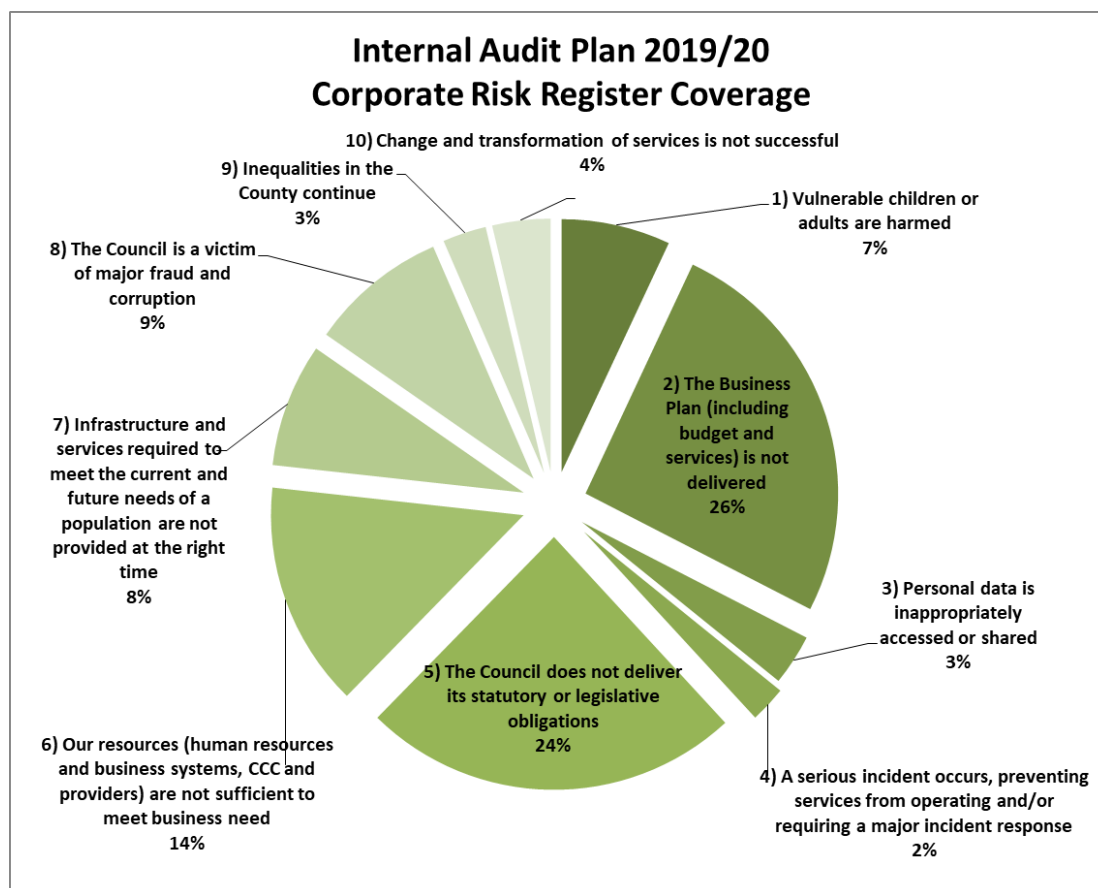
Table 1: Analysis of Audit Plan by Assurance Block



- 4.7.3 To help understand the breadth of audit coverage across the organisation, we have also broken the draft Plan down into organisational themes. This helps to demonstrate how the planned reviews will provide coverage of key organisational risk areas.
- 4.7.4 In particular, this analysis clearly demonstrates the overarching focus of the Plan on financial governance and procurement/contract management, while also providing coverage across broader risk areas.
- 4.7.5 The breakdown of the proposed Plan across is shown at Table 2 below:



4.7.6 Finally, the proposed Audit Plan has also been mapped against the Council's Corporate Risk Register, to ensure that it includes coverage of all key corporate risks. In conducting this mapping process, both the primary and secondary risk focus of each review has been taken into account as shown at Table 3 below:



4.8 CONCLUSIONS

- 4.8.1 The 2020/21 Audit Plan has used a risk-based approach to prioritising internal audit work and includes sufficient coverage to ensure an evidence-based assurance opinion on the control environment can be provided at the end of the year.
- 4.8.2 The Plan is responsive in nature and all efforts will be made to maximise coverage to provide the most effective and agile internal audit service possible that focuses on key risks facing the organisation throughout the year.
- 4.8.3 Progress against the plan will be monitored throughout the year and key issues reported to JMT and the Audit and Accounts Committee each quarter.

Key to Audit Plan

Directorates	
P&C	People and Communities
P&E	place and economy
CCS	Customer and Digital Services
BI&D	Business Improvement and Development
Other abbreviations	
FOI	Freedom of Information Request
PFI	Private Finance initiative
ICT	Information Communication Technology

Source Documents: None