

Strategic Statement Supporting 2020/21 Audit & Assurance Plan

1. **Introduction & Purpose**

- 1.1 Under the Accounts and Audit Regulations 2015 the Council is required to have an effective internal audit in place to evaluate the effectiveness of its risk management, control and governance processes, taking into account compliance with the Public Sector Internal Audit Standards (PSIAS).
- 1.2 The PSIAS define Internal Auditing as:
'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.'
- 1.3 The PSIAS require the Head of Audit & Assurance to prepare an annual risk-based internal audit plan, which takes into account the requirement to produce an annual internal audit opinion of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion statement is one of the key contributors to the Annual Governance Statement which the Chief Executive and Leader are required to sign off each year alongside the final accounts.
- 1.4 The annual programme of audit work, as defined within this annual audit plan, is the basis on which the Head of Audit & Assurance forms the required annual audit opinion.

2. **Scope and Independence**

- 2.1 In line with the requirements of the PSIAS, the Head of Audit & Assurance is responsible for the effective review of all aspects of risk, governance and internal control throughout the full range of the Council's activities.
- 2.2 Audit and Assurance will remain independent of the activities that it audits to ensure internal auditors perform their duties in accordance with the statutory guidance, and relevant codes of ethics, and to ensure impartial, objective and effective professional judgements. Internal auditors have no operational responsibilities within the Council. Audit & Assurance staff have right of access to all information and records held by the Council which may be necessary in carrying out their work and may seek explanations on any matters from any officer or Member of the Council without fear or favour.

3. **Standards and Ethics**

- 3.1 All internal audit work will be delivered in line with the requirements of the PSIAS.
- 3.2 The PSIAS contain a mandatory Code of Ethics for all internal auditors in UK public sector organisations. Individual members of the internal audit staff within Audit & Assurance are also bound by the codes of ethics of their respective professional institutes. They are also required annually to declare that they comply with the Council's Code of Ethics for Internal Audit and that they have no conflicts of interest.

4. Internal Audit Planning Strategy

4.1 The key principles of Audit & Assurance's approach to audit planning are:

- to deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations (2015).
- to meet the requirements of the PSIAS (2017) by producing a risk based audit plan that takes into account the Council's organisational strategies, objectives, risks and priorities.
- to focus assurance effort on the most important issues for the Council, by assessing critical business processes and principal risks, at both strategic and operational levels.
- to support the Directors of Finance & Customer Services and HR, Legal & Governance in fulfilling their obligations as the Council's Section 151 and Monitoring Officers respectively.
- to liaise with the external auditor, Grant Thornton, to coordinate the approach and scope of work so that they can place reliance on the work of Audit & Assurance in delivering their own programme of work, where appropriate.
- to add value and support senior management in providing effective internal controls and identifying opportunities for improving value for money and promoting organisational improvement.
- to consult with key stakeholders to ensure provision of an appropriate level of assurance within the available resource, accepting that not all requests can or will be met.
- to provide sufficient flexibility to allow the plan to evolve to meet any significant emerging risks during the year and to respond where appropriate to management requests for assistance, advice and consultancy.

5. Internal Audit Planning Methodology

5.1 The approach to audit planning for 2020/21 has been a risk based approach in line with the requirements of the PSIAS and has been prepared following consultation with senior management to establish the key risks areas faced across the Council. Consideration has also been given to the areas identified within the Corporate & Departmental Risk Registers, the Departmental Management Accountability Framework Dashboard Reports, and from a review of the outcomes of previous audits, together with cumulative audit knowledge and experience. Potential audit areas (the Audit Universe) have been identified and risk assessed against the following criteria:

- Materiality;
- Legal, Political and Reputational risk;
- Management priority;
- Internal Control, governance and previously identified issues;
- System stability; and
- Time since previous audit review.

5.2 The annual plan is produced from the Audit Universe and prioritised (Level 1-6) to the level of risk associated with each issue. The priorities have been determined as follows:

- Priority 1 (highest): A corporate risk, strategic governance or fundamental control review, not subject to a recent satisfactory audit

review (adequate/substantial assurance opinion) within the previous 12 months; or a grant claim certification, which must be endorsed by internal audit to comply with the funding requirements of central government departments. (Red)

- Priority 2: A significant departmental risk, governance, control or improvement issue identified by Directors and/or their departmental management teams not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 12 months. (Yellow)
- Priority 3: A significant departmental risk, governance or control issue identified from a review of corporate/departmental risk registers, MAF returns or Council minutes not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 12 months. (Green)
- Priority 4: Other departmental risk, governance or control issue not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 2 years. (Pink)
- Priority 5: Other departmental risk, governance or control issue not subject to a recent satisfactory audit review (adequate/substantial assurance opinion) within the previous 3 years. (Mauve)
- Priority 6 (lowest): Departmental risk, governance or control issue removed, no longer applicable or not auditable. (White).

5.3 In addition, during the planning meetings with Directors consideration was given to areas for inclusion in the plan (Priority A*) where internal audit could provide added value developing our approach from traditional 'policeman' to one of 'educated friend'. This would provide scrutiny and challenge to activities and ensure that adequate controls are in place to meet the objectives for the activity identified. This work would support senior management in ensuring effective internal controls exist whilst identifying opportunities for improving value for money using our risk-based approach.

5.4 Only the priority 1, 2, and 3 and A* reviews identified are able to be delivered in the 2020/21 Internal Audit Plan due to the limited Audit & Assurance staff resources available. It is important that there is ability to flex and adapt the annual plan during the course of the year. The plan priorities will be reviewed with Directors during the course of 2020/21 to assess the impact of any changes to risk profiles, identify new or emerging issues and agree any changes to priorities.

6. Key Challenges & Opportunities

6.1 Transformation of services and budget pressures throughout the Council continues to result in significant changes to the control framework, and risks can increase as skilled and experienced staff leave the organisation or when new and innovative ways of working are developed and implemented. We need to be aware of the challenges that face the Council and maintain awareness of these risks as they emerge. The audit plan has been developed to provide assurance that basic risk, governance and control arrangements continue to operate effectively, minimising the risks of

misappropriation, loss and error and to ensure that key risks are identified and adequately managed or mitigated.

- 6.2 To add value, Audit & Assurance needs to take into account the key changes and issues affecting the Council. The specific challenges and opportunities facing the Council at the current time have been considered as part of the planning strategy. The following areas are considered to have a high strategic risk and have been included in the plan. Work on these areas will contribute to the Council's assurance requirements.

Welfare Reform:

- 6.3 The impact of Welfare Reform is expected to continue through 2020/21. The main risks associated with this are the set up and administration of the different strands of the reforms as well as the potential adverse impact on beneficiaries, leading to increased demand for services from residents. The Audit Plan includes time for proactive and reactive counter fraud initiatives and counter fraud activity to demonstrate the implementation of the Counter Fraud Strategy 2016/21 through the review of fraud risk registers. The Audit Plan also provides for a review of controls relating to the implementation of the Council's Homelessness Strategy.

Local Government Finance

- 6.4 Under the Localism Act 2011 proposals for local business rate retention came into effect from April 2013. Since then the Government has been reporting its intention to fundamentally change the way councils are funded. This included a 'Fair Funding' review which would review and reset the funding requirements of each council area, developing mechanisms to move to a 75% Business Rates Retention scheme by 2020, and a review of Adults Social Care funding. These areas would significantly change the way Councils are funded. Changes have been made to the arrangements for Adult Social Care funding since then, including the Improved Better Care Fund and the Social Care Support Grant.
- 6.5 However in September 2019 the Minister for Housing, Communities & Local Government announced that although the national 75% Business Rates Retention scheme would not be implemented for 2020/21 as had been intended. In the September Spending Review the Government confirmed that it would now aim to implement a 75% model in 2021/22 to provide further time to work with the sector on options for delivering the review of relative needs and resources, and in reforming and improving the business rates retention system. Previous audits of the Council's council tax and business rate systems have provided adequate assurance on these areas.

Health Reform

- 6.6 Central government is continuing to signal greater integration between health and social care in order to find ways to tackle unsustainable increases in service demand in this area. However, the publication of the Green Paper on adult social care was shelved and a White Paper was expected in the autumn. The Prime Minister has now stated that proposals would be brought forward in 'in due course'. The Care Act 2014 led to changes in the funding of social care, which impact the assessment process. Internal audit reviews of adult social care assessments, governance arrangements for the social determinants of health fund, the implementation of the Volunteering/Demand Management Strategy and health and social care integration arrangements are planned. We will also be able to provide advice and support regarding the governance

arrangements relating to the implementation of the Integrated Care Organisation.

Education Reform

- 6.7 There have been changes in national legislation over recent years, which have given schools increased freedoms, which will potentially impact on the business model for the existing educational support services offered by the Council. The Government also started the first stages for the introduction of a new national funding formula for schools, which will mean that all schools will receive a consistent and fair share of the schools budget. This was expected to be fully implemented for 2020/21. However, this has not been the case. Reviews of the Council's maintained schools will continue to provide assurance that the school budgets are being adequately and effectively managed.

Growth Agenda

- 6.8 The Council remains committed to delivering a more prosperous Borough and recognises that only by delivering higher rates of economic growth, whilst improving opportunities and the quality of life for residents, will the Borough's future be secured and sustained. The audit work for 2019/20 included a review of the LSP Growth Programme forecasting and governance framework. An adequate opinion was provided for both the control environment and compliance with the controls identified.

7. Categories of Internal Audit Work

- 7.1 The overall opinion on the Council's control framework is derived from a range of Audit & Assurance work over a number of areas. The work of the service is broadly categorised as follows:
- Planning – a risk based internal audit plan will be created on an annual basis, which will incorporate key risk areas within the Council, in line with strategic and operational risk registers, and the Council's Risk Management Policy.
 - Risk-based system audits – one of the main ways that Audit & Assurance will form a view on the overall control system is by carrying out reviews of the component systems and processes (e.g. using process maps that identify risks and controls; drafting system notes) established within respective business entities. These are commonly known as risk-based system audits and will allow Audit & Assurance to assess the effectiveness of internal controls within each system in managing business risks, enabling a view to be formed on whether reliance can be placed on the relevant system. This approach will enable resources to be used in an efficient way, whilst maximising the benefit that can be derived from it.
 - Compliance / regularity / establishment / school audits – these audits are intended to assess if systems are operating properly in practice. They are typically site-based (establishment) and focus on the propriety, accuracy and completion of transactions made. The term 'site' includes departments, services or devolved units. The audits may focus on specific systems or cover transactions in all major systems (not necessarily just financial systems). This will also provide information and evidence about the extent, in practice, of compliance with organisational policies, procedures and relevant legislation.

- Key Control Testing – a variation on compliance audit but focusing on a small number of material or ‘key’ controls that provide assurance on the completeness and adequacy of the Council’s accounts. This can provide the basis for external audit to place reliance on the work of Audit & Assurance.
- Procurement – This will use the risk-based methodology to assess compliance with the Council’s corporate procurement strategy and the Constitution, with reference, in particular, to major contracts.
- Service Reviews / Value for Money – these reviews will use the risk-based methodology, working often in a multi-departmental team, to review specific processes. Value for money will be a consideration in both these and more general audit reviews.
- Control Risk Self Assessment – facilitating the review by services of their own risks and controls in a structured way, for example, via questionnaires or workshops. This can service both the requirements for assurance or as consultancy.
- Systems Development Audit – phased review of developing plans and designs for new systems and processes aimed at identifying potential weaknesses in control during the development stage, thus minimising the need for re-working.
- Counter Fraud – preventing, detecting and investigating fraud and corruption is, ultimately, a responsibility of management – as part of management’s general responsibility for the integrity of the Council’s activities. Most cases of fraud and corruption exploit the same weaknesses in systems that, in other circumstances, might have led to nothing more than a mistake. Internal audit will assist management by:
 - verifying management’s arrangements for ensuring systems are secure against fraud and corruption and report on any weaknesses;
 - investigate, using the fraud response plan, cases where there is evidence of fraud and irregularity;
 - when requested, undertake investigations into suspected or alleged fraud or corruption. These will be conducted in accordance with statutory requirements, e.g. Police and Criminal Evidence Act, Regulation of Investigatory Powers Act, Data Protection Act, by appropriately trained staff;
 - review weaknesses revealed by instances of proven fraud or corruption, including review of National Fraud Initiative (NFI) data matches to ensure that appropriate action is taken to strengthen internal control arrangements;
 - verify that the risk of fraud and corruption is specifically considered in the Council’s overall risk management process; and
 - develop counter fraud awareness and understanding of fraud risk.
- ICT Audit – specialist review of the control of hardware, software and the ICT environment to evaluate fitness for purpose and security of the ICT environment. These reviews will be conducted by in house staff being trained in the technical IT aspects.
- Consultancy – Audit & Assurance can also provide independent and objective services, including consultancy and fraud-related work. These services apply the professional skills of Audit & Assurance through a

systematic and disciplined approach and may contribute to the opinion, which Internal Audit provides on the control environment.

- Follow up audits – these are designed to test the implementation and effectiveness of previous audit recommendations.
- Evidence – all audit findings, conclusions and recommendations will be evidenced on file. Relevant details on which findings and recommendations are based will also be supported by evidence held on file within the Internal Audit section.
- Use of Technology – Internal Audit will employ relevant technology where appropriate when testing systems and when producing working papers and reports. Additionally Internal Auditors will be alert to IT risk in relations to technology utilised within systems under review.

8. Reporting Arrangements

8.1 At the conclusion of each audit assignment, a draft report is issued to the appropriate manager within the Council. A management action plan is included within the report, which summarises the recommendations arising. Management should agree these actions, allocating responsibilities and timescales for implementation.

8.2 Recommendations included in the report are classified as follows:

Must Critical in that failure to address the issue or progress the work will lead to one of the following occurring: loss, fraud, impropriety, poor value for money or failure to achieve against organisational objectives. Examples include failure to comply with legislation or organisational policy or procedures. *Remedial action must be taken immediately.*

Should Not critical but failure to address the issue or progress the work could impact on operational objectives and should be a concern to senior management. *Prompt specific action should be taken.*

Consider Areas that individually have no major impact on achieving objectives or on the work programme, but where combined with others could have an effect at the process level which could give cause for concern. *Specific remedial action is desirable.*

8.3 For the risk, control and governance audit reviews that support the Head of Audit & Assurance's annual audit opinion the final report will provide an assurance level. This will be measured to cover (i) the control environment following an assessment of internal controls identified and (ii) compliance following testing to measure application of those controls. The levels of assurance provided in the audit report are as follows:

Assurance Level	Control Environment	Compliance
Substantial	There are minimal control weaknesses which present very low risk to the control environment.	The control environment has substantially operated as intended although some minor errors have been detected.
Adequate	There are some control weaknesses which present a	The control environment has mainly operated as intended although

	medium risk to the control environment.	errors have been detected.
Limited	There are significant control weaknesses which present a high risk to the control environment.	The control environment has not operated as intended. Significant errors have been detected.
No	There are fundamental control weaknesses which present an unacceptable risk to the control environment.	The control environment has fundamentally broken down and is open to significant error or abuse.

8.4 For the consultancy reviews, where Audit & Assurance is providing independent advice and support to departments during the implementation of new systems and procedures an opinion may be provided, which reflects progress on these developments. This opinion may contribute to the Head of Audit & Assurance’s annual audit opinion.

8.5 A final report containing management responses to any issues identified is subsequently distributed to:

- The Director responsible for the area reviewed;
- The Director of Finance & Customer Services (Section 151 Officer);
- The Chief Executive (Limited Assurance Reports Only); and
- Grant Thornton (the Council’s external auditor) (All Reports).

9. Monitoring Arrangements.

9.1 The Audit & Assurance Plan will be monitored via weekly progress meetings of the Audit & Assurance management team, regular meetings with the Director of Finance & Customer Services and external audit. Periodic updates will also be provided to the Directorate Management Teams along with individual reports to relevant Senior Managers.

9.2 The plan reflects the assurance need, however, it is recognised that priorities may be subject to change. In addition to the contingency that is available, we accept that there may be a need to amend our planned audits during the year so that we continue to reflect the priorities and risks of the Council. We will discuss minor changes with the Director of Finance & Customer Services. Any significant matters that impact upon completion of the plan or require substantial changes will be reported to Management Board and to the Audit & Governance Committee.

9.3 Report recommendations from individual audits are followed up to ensure they have been implemented as agreed. This arrangement allows progress against the plan to be discussed, management actions confirmed, and ensures audit resources are directed towards priority areas. It is the responsibility of management to ensure that all agreed actions arising from an audit report are implemented in accordance with the timetable agreed in the management action plan included in the audit report.

9.4 Where we issue a *limited* or *no* assurance report we will undertake “standard” follow ups after 3 months. For all other assurance reports, we will undertake a “standard” follow up after 6 months. Where we have

particular concerns about the implementation of recommendations we will undertake further “physical” follow up exercises where documentation will be reviewed and further testing undertaken.

9.5 In addition, summaries of finalised Audit & Assurance reports are presented to each Audit & Governance Committee meeting to provide an update of audit progress and coverage and to outline the key issues arising from this work. This also includes information on the implementation of agreed recommendations.

9.6 The performance of Audit & Assurance will be measured against a suite of performance measures and reported on a quarterly basis to Audit & Governance Committee through the progress & outcomes report. The defined targets included within the Finance & IT Department’s Business Plan for Audit & Assurance in 2020/21 are:

Achievement:

- a) delivery of priority 1 audit plan topics: 100%
- b) percentage of planned assignments completed within budget: 90%
- c) percentage of final reports agreed within deadline: 90%
- d) follow ups undertaken within deadline: 90%

Quality:

- a) percentage of agreed recommendations implemented: 90%
- b) percentage of client’s satisfied with the Service : 75%
- c) percentage compliance with PSIAS: 95%.

9.7 The extent of audit work performed during the year, managers’ acceptance of audit recommendations and the subsequent improvements in controls and processes enable a formal opinion to be prepared by the Head of Audit & Assurance as to the quality of the overall internal control environment. This formal opinion will be presented to members within the Annual Internal Audit Report and this formal opinion feeds directly into the Annual Governance Statement.

10. Audit & Assurance Resources

10.1 As at 1 April 2020 Audit & Assurance had a staffing structure devoted to the delivery of the Audit & Assurance Plan, which comprises of 5.4 full-time equivalent (FTE) posts (previously 7.15 FTE posts in 2016/17):

- 1 Head of Audit & Assurance (0.70 FTE)
- 2 Principal A & A Officers (2.0 FTE)
- 2 A & A Officers (2.0 FTE)
- 1 Apprentice (0.7 FTE)

10.2 The qualifications, experience and specialisms of the staff occupying the current staffing structure are as follows:

Name	Qualifications	Experience	Specialism
Colin Ferguson Head of A & A	ACCA	37 years	Strategic Risk & Governance Audit
Chris O’ Halloran Principal Internal Auditor	PIIA	10 years	Counter Fraud Contract Audit
Andrew Tordoff	HND in	20 years	IT Audit

Principal Internal Auditor	Accounting Foundation Diploma in Business Analysis		Risk & Governance Audit
Catherine Bibby Internal Auditor	Honours Degree/ AAT Part Qualified	6 years	Risk & Governance Audit
Abbie Duncan	AAT Part Qualified	11 months	Risk & Governance Audit
Sarah Ali Apprentice	Degree and Post Graduate Certificate	9 months	Risk & Governance Audit

ACCA - Association of Chartered Certified Accountants

CIPFA - Chartered Institute of Public Finance & Accountancy

PIIA - Practitioner of the Institute of Internal Auditors

IIA - Institute of Internal Auditors

AAT - Association of Accounting Technicians

HND - Higher National Diploma (equivalent to 2 years at University)

10.3 Currently, this establishment is regarded as adequate for the Council's needs in ensuring that it meets the requirements of the Accounts and Audit Regulations. However, there will often be significant changes affecting either what the Council does or how it arranges delivery to fulfil its statutory obligations. The impact on the Audit & Assurance function of such changes will be reviewed, each year, so that Members can assess the adequacy of its resource needs.

10.4 Staff training (both induction and professional) will continue to be a major factor in the Team's Business Plan in 2020/21. In particular, ensuring that the standards demanded by the PSIAS are maintained. The competency framework has been developed in the Audit & Assurance Manual so that all staff can be assessed periodically against a pre-defined standard and training needs identified. There is a training plan that is linked to both performance appraisals and the Team's own development needs. The professional training that has been proposed for inclusion in the Finance & Customer Services Department's training plan is as follows:

Name	Professional Training	2020/21 Commitment
Catherine Bibby	IIA Internal Auditor Practitioner Apprenticeship	20 days
Abbie Duncan	Final AAT levels or appropriate AAT Apprenticeship	15 Days
Sarah Ali	AAT	50 days

10.5 A resource calculation was undertaken to determine the number of days available for the various types of audit work. The resource calculation is shown below, with 2019/20 figures for comparison.

Category	2020/21	2019/20
Total available days	1,909	2,009
Deduct: annual leave, sickness & bank holidays.	(302)	(331)
Deduct: non-productive time (management meetings, team meetings, attendance at external meetings, training, planning etc.)	(318)	(320)
Deduct: non-audit time (counter fraud, insurance/risk, financial support etc.)	(554)	(679)
Days available for Audit & Assurance reviews	735	679

10.6 The days available for Audit & Assurance reviews have been allocated to the priority 1, 2, and 3 audit planning levels (see section 5.2, above) for the following corporate and departmental areas (See Appendix 3).