

HUNTINGDONSHIRE DISTRICT COUNCIL

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| Title: | Internal Audit Plan 2019/20 |
| Meeting/Date: | Corporate Governance Committee – 27 March 2019 |
| Executive Portfolio: | Cllr J Gray (Resources) |
| Report by: | Internal Audit Manager |
| Wards affected: | All wards |

Executive Summary:

The Committee has responsibility under its terms of reference for ensuring that the Council undertakes an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account the Public Sector Internal Audit Standards (PSIAS).

In January 2019 the Committee agreed that the internal audit plan for 2019/20 should be prepared on a six monthly basis. The internal audit plan for the period April to September 2019 is attached for review and approval.

Elements of the Resources team are being restructured. At the time of writing this report, the final outcome report from the restructure has not been issued. It is expected that internal audit resources will increase from last year by 0.14fte, to 2.27fte. This is welcomed, and makes available an additional 19 days.

In addition responsibility for insurance and risk management services is being transferred away from internal audit. This is expected to make a further 40 days available.

Recommendation

That the Corporate Governance Committee:

- review and approve the Internal Audit plan for the period April to September 2019.
- agrees that changes can be made to the Internal Audit plan following consultations between the Head of Resources (as S.151 officer) and the Chairman of Corporate Governance Committee.

1. PURPOSE OF THE REPORT

- 1.1 To recommend to the Committee that the Internal Audit (IA) plan for the period April to September 2019 be approved.

2. BACKGROUND

- 2.1 The Accounts and Audit Regulations 2015 require that 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 Audit Standards (PSIAS) or guidance’. The Council have adopted the PSIAS through the Committees Terms of Reference.
- 2.2 The Council requires the Internal Audit Manager (IAM) to “establish risk-based plans to determine the priorities of internal audit activity, consistent with the organisations goals”. The risk based-plan must also:
- take into account the requirement to produce an annual internal audit opinion;
 - incorporate a strategic high-level statement of how the internal audit service will be delivered and developed and how it links to the Council’s objectives and priorities;
 - explain how internal audit’s resource requirements have been assessed; and
 - include the approach to using other sources of assurance and any work required to place reliance upon those other sources.

Furthermore, the IAM must review and adjust the plan as necessary, in responses to changes in risks, operations, programs, systems, and controls.

3. ANALYSIS

Available resources and evaluation

- 3.1 In the latter part of 2018/19 the Resources Service underwent a formal restructure. At the time of preparing this report the final restructure outcome report had not been issued. Based on the formal consultation document issued in January 2019 it is likely that the internal audit staff resources for 2019/20 will increase by 0.14fte, from 2.1fte to 2.27fte.

1.00 fte: Internal Audit Manager
1.00 fte: Internal auditor (consisting of 2 separate posts)
0.27 fte: Computer audit (BDO)

- 3.2 In addition, responsibility for the risk management and insurance services has been moved from Internal Audit to a new Exchequer Service within Finance; this move will enhance the independence of Internal Audit from day-to-day business activity. The transfer of risk and insurance allows for a further 40 days of direct delivery of internal audit activity. However all this time will not become available for the delivery of internal audit reviews as time has been allocated to:
- preparing for the five yearly independent assessment of internal audit as required by PSIAS,
 - increasing the number of follow-up reviews on actions that have been declared by managers to be fully implemented,
 - reviewing the current audit report opinions to more closely match the icare values, and
 - 4Action system upgrades.
 - Proactively supporting the council’s transformation programme; ensuring that optimum efficiency (Value for Money, VfM) is awarded from relevant reviews.

A summary detailing how the deliverable audit days total has been reached is included below.

| | | 2018/19 | | 2019/20 |
|-----------------------------------|---------------------------------|----------------|-----|----------------|
| Total days available | | 570 | | 588 |
| Less | Leave, sick, elections etc. | 80 | | 81 |
| | Staff development & training | 13 | | 13 |
| | Management | 54 | | 56 |
| | PSIAS assessment | 5 | 152 | 15 |
| | | 418 | | 423 |
| Less | Risk Management & Insurance | 40 | | 0 |
| | General advice | 20 | | 24 |
| | Corp Gov Cttee support & review | 12 | | 15 |
| | Follow-up reviews | 12 | | 24 |
| | 4action – reporting | 6 | | 14 |
| | Transformation Review/VfM | 0 | | 5 |
| | Ann. Gov. Statement & Code | 6 | 96 | 6 |
| | | 322 | | 335 |
| Delivery of the audit plan | | 322 | | 335 |

Internal audit plan

- 3.3 Annual internal audit plans have been prepared for many years based on an audit universe that contained details of all systems and significant processes. For the last few years the audit universe has continued to be maintained and updated with risks recorded on the risk register. A significant amount of time is spent preparing the annual plan and scheduling audits across the year, only for the plan not to be fully delivered due to the need to advance, deter, add or remove audits throughout the year.
- 3.4 A trial was undertaken in 2018/19 of preparing a quarterly audit plan that focused on current and future risks rather than the traditional approach of considering how risks had been managed in the past. Changes in the audit planning process did not bring about significant changes to the audit plan content however. The approach to focusing on current and future risks is to continue, with the Committee agreeing at its last meeting that the audit plan should be prepared on a six monthly basis. The audit plan for the initial six months of the year is attached at Appendix 1.
- 3.5 The plan has been prepared after considering the aims and outcomes of the Corporate Plan, the progress made in delivering the 2018/19 annual governance statement, the requirement to review key financial and significant internal control systems and procedures and the significant risks recorded in the risk register. Cabinet and Corporate Governance Committee members and the Senior Leadership Team have also been asked for ideas or suggestions of areas that could be considered for inclusion in the plan.

Other sources of assurance

- 3.6 The PSIAS requires that the audit plan planning process takes into account other sources of assurance that will be available during the year. Managers have been requested to provide details of any planned independent reviews from which assurance could be obtained so as to avoid/minimise duplication of effort.

4. RISKS

- 4.1 Non delivery of the internal audit plan, or not undertaking sufficient work across the Council's control environment (the framework of governance, risk management and control) may affect the ability of the Internal Audit Manager to provide the Committee with a robust annual internal audit opinion.
- 4.2 Whilst internal audit staff resources are likely to increase in 2019/20, the team is small and any reduction in resources (i.e. staff leaving, sickness) would quickly have an impact on the deliverability of the audit plan. Whilst BDO, our current suppliers of IT audit, would be able to deliver part of the plan, this is not a long term solution.

5. LINK TO THE CORPORATE PLAN

- 5.1 The Internal Audit Service through the audit plan contributes to all the strategic themes and outcomes. Specifically it supports The Senior Leadership Team by undertaking reviews that provide assurance that:
- significant risks identified in the risk register are managed effectively;
 - laws and regulations are being met,
 - business and financial processes and systems are managed effectively; and
 - assets are safeguarded.

It also improves the performance of the Council by assessing current risks, considering emerging risks, identifying efficiency gains and process improvements.

6. RESOURCE IMPLICATIONS

- 6.1 The 2019/20 service budget is sufficient to support the internal audit establishment detailed in paragraph 3.1.
- 6.2 It is essential that the internal audit plan is duly flexible i.e. the allocation of days to audit reviews and audit reviews themselves. Therefore, it is considered that there should be appropriate delegation to the Head of Resources (as S.151 officer) to permit such changes, in consultation with the Chairman of Corporate Governance Committee.

7. REASONS FOR THE RECOMMENDED DECISIONS

- 7.1 The Committee's terms of reference require it to approve the internal audit plan.

8. LIST OF APPENDICES INCLUDED

Appendix 1 – 2019/20 Internal Audit plan.

BACKGROUND PAPERS

The Public Sector Internal Audit Standards

CONTACT OFFICER

Name/Job Title: David Harwood, Internal Audit Manager

Tel No: 01480 38115

Email: david.harwood@huntingdonshire.gov.uk



Internal Audit & Assurance Plan 2019 - 2020

In delivering the Internal Audit (IA) Mission Statement -

to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight and to specifically support the Council successfully achieve its vision and priorities as set out in the Corporate Plan -

it is important that IA engagements not only consider and review internal control, risk and governance issues but also:

- remain future focused,
- positively influence and contribute to service developments and initiatives
- lead to a strengthening of the control environment, and
- are performed in accordance with professional standards.

Remain future focused

Traditionally IA have reviewed how risks and objectives have been delivered in the past, rather than consider how they are to be managed going forward. The audit plan is future focused, considering the risks that lie ahead of the Council, and so allow IA to provide advice and insight that will help Corporate and Service Plan objectives be achieved. This is a step-change in approach and is unlikely to happen over the short term. However the Resources restructure has reinforced this point by making an explicit statement that IA is expected to operate a business partnering model, supporting services to achieve their optimum performance.

Service Managers will need to play their part in delivering such a change. The initiative introduced in 2018/19 of preparing a quarterly plan, so as to allow IA to respond to the needs of the organisation was not successful. The staff time spent on preparing quarterly plans was out of kilter with the benefits gained. A new approach is needed, but one that still ensures the audit plan remains future focused. When starting to prepare the 2019/20 audit plan, the requirements of both the Corporate Plan and 2018/19 annual governance statement have been taken into consideration. There are a number of new initiatives being taken to deliver the requirements set out in both of these documents and the audit plan has been devised to consider and respond to, amongst others, new areas of activity, priorities and emerging risks, issues of local significance and importance and the impact of change to existing controls.

Cabinet and Corporate Governance Committee (CGC) members have also been contacted and asked for their thoughts on areas for inclusion in the plan. They will also be contacted during the year so their concerns continue to be heard.

Positively influence and contribute to service developments and initiatives

Due to the many challenges facing the Council, change remains a constant and all Services either have reviewed or will be reviewing how they deliver their services.

IA is able to add value at an early stage of service or transformational developments through contributing advice and assistance that influences how risks can be reduced through introducing appropriate controls. Providing assurance at an early stage will also allow IA to gain a fuller understanding as to how the changes proposed will assist in delivering service objectives and their consequential impact elsewhere across the Council. This approach should lead to a strengthening of the overall control environment and time will be made available in the audit plan for IA to undertake this type of advisory work. IA strives to be trusted advisor to senior management and the CGC. Contributing positively to service developments and initiatives is one way in which that trust can be gained.

Lead to a strengthening of the control environment

The results of IA work are communicated to Managers and Members via IA reports. Arising from the external LEAN review undertaken within IA in 2017, changes have been made to the audit 'wash-up' and reporting process. The aim being to improve the discussions and feedback provided to Managers and the speed by which they respond to IA reports. In addition the IA report template has been redesigned so that issues identified are reported with greater clarity and impact.

Managers agree to implement actions that will strengthen the control environment and IA will continue to use the 4Action software to monitor and report upon their introduction. IA will undertake follow-up reviews at least twice a year on a sample of actions that managers have indicated as being fully introduced. The results of the follow-up work will be one of the factors that inform the annual IA opinion and time will be made available in the audit plan for follow-up reviews to be completed.

CGC will receive a summary update on the delivery of the audit plan agreed, be informed of any issues of concern and the progress being made with the implementation of agreed audit actions. Such a summary will allow the CGC to receive timely and relevant information and allow them to question IA whilst issues remain relevant.

Performed in accordance with professional standards.

The Public Sector Internal Audit Standards (PSIAS) require an external independent review of the IA service to be completed at least once every five years. Whilst an internal review against the PSAIS was conducted in May 2018 by a member of the internal audit team and an action plan prepared, an external review was not commissioned. This was due to the need to concentrate efforts on delivery of the audit plan. It is proposed that an external review be commissioned by December 2019.

The Internal Audit Manager reviews the work performed by internal auditors at key stages throughout the audit process and evidences the checks they have performed. The IA service aims to act in conformance with the PSIAS. The external review will confirm if that is the case or not.

Time will be made available in the audit plan for preparing for and participation in the external review process.

Internal Audit performance measures

At the time of preparing the audit plan, performance measures for 2019/20 had not been agreed with the Head of Resources. It is intended that the measures be output based, reflecting the impact that internal audit have on service improvements. The measures will be contained in the IA Service Plan and reported to the CGC when agreed.

Internal Audit & Assurance Plan 2019-2020

It is estimated that 335 days will be available for the delivery of internal audit reviews in 2019/20. These days will not be split evenly between the two six month periods on account of the need to take account of annual leave requirements.

April – September 2019

It is estimated that 145 days will be available in the period April to September 2019 for delivery of the plan. This time has been provisionally allocated to the following areas:

Corporate Plan

Place

Create, protect and enhance our safe and clean built and green environment

Delivery of capital schemes

To review the deliverability of capital schemes (i.e. on time/on budget) and adherence to the councils project management approach. Where there are identified shortcomings, whether remedial action taken was reasonable.

Lone working

To review the councils lone working arrangements and their operation, and any supporting software/systems (and the procurement there of).

Community corporate enforcement policy

This audit was planned to be undertaken in 2018/19. The Cabinet approved a revised corporate enforcement policy in February 2018. This review is to consider how the policy has been implemented and its effectiveness. In addition, the review will also include a comparison of how other councils undertake corporate enforcement (one team/multiple teams) and a comparative assessment of the cost effectiveness of the councils operation.

Provide value for money services:

Becoming a more efficient and effective Council

The achievement of key performance indicators within the Corporate Plan.

Data that can be trusted is the foundation on which information is built. This audit will review the processes that are in place for compiling, assessing and reporting to Members key performance information – and what actions are taken to ensure/deliver success; including a comparison against other councils and what and how they report such information. This review will also include a table top review of how the Corporate Plan is produced and whether there is an efficiency opportunity in better alignment in both the preparation of the Corporate Plan and the Budget/Medium Term Financial Strategy.

Budget monitoring and control

The T1 financial management system has introduced new procedures for the monitoring of service budgets, given service managers. By the early Autumn it is expected that the budgeting and forecasting modules will introduce significant 'self-service' that will enable service managers to complete monthly forecasting and budgeting processes with reduced accountancy staff assistance. Significant staffing changes have been introduced into the accountancy team to reflect the increased 'self-service'. This audit will review the effectiveness of the new process, the accuracy of forecasts/budgets and level of support required from the accountancy team. A comparison will be made with our partner councils (South Cambridgeshire DC and Cambridge City Council) on their experience and reasons for differences between the partners.

IT system administration

The Council wishes to migrate (where possible) customers to online services. It is important that IT systems remain available 24/7 and that sufficient staff have system administrator responsibilities to ensure systems remain available. This review will consider system administrator availability, roles and responsibilities and succession planning.

Becoming a more customer focused organisation:

Embedding the icare values

The icare values were launched in February 2018. This review will consider how well the values have become embedded into business as usual behaviours for staff and whether team cultures and behaviours are changing.

Purchase order compliance

The T1 financial management system has automated the purchasing order system . Purchase order requisitions are created and authorised before a purchase order can be issued to suppliers. This audit will examine how services are using the requisition process, including the timeliness and accuracy of orders and the effect on budget management and forecasting.

Quarterly assurance reviews of the main financial systems :

Accounts Payable
Accounts Receivable
Housing Benefit
Council Tax / NDR
Main accounting system

Computer audit reviews

No computer audit reviews are expected to be delivered in the period.

In addition to reviewing the areas listed above, time has also been made available in the IA work plan to provide for the following:

- support and develop VfM opportunities within the council's transformation programme.
- completing reviews carried forward from 2018/19
- providing help and advice to managers
- Monthly 4Action reports, follow-up reviews of agreed audit actions introduced
- attendance at quotation openings
- managing whistleblowing allegations
- reviewing and investigating National Fraud Initiative output
- quality assessment of audit work undertaken and file review, and

- supporting the work of the Corporate Governance Committee through the delivery of training, preparation of the local code of governance, annual governance statement and its annual reporting.

David Harwood
Internal Audit Manager
March 2019

Reviewed by Clive Mason, Head of Resources (& S.151 Officer).