

**Public
Key Decision - No**

HUNTINGDONSHIRE DISTRICT COUNCIL

Title: Internal Audit Plan 2020-21

Meeting/Date: Corporate Governance Committee – 23 July 2020

Executive Portfolio: Cllr J Gray (Resources)

Report by: Internal Audit

Ward(s) 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).

The Internal Audit Manager resigned from post in March 2020 following two lengthy periods of absence within the audit year. Whilst an Internal Audit Plan was prepared for the first six months of the year 2020/21, the COVID situation overtook events before this Plan could be approved by Committee.

As a result of COVID, the Internal Audit Service was paused in March and both auditors redeployed to assist COVID priorities (Business Grants, Recovery, etc) for the first half of the year.

The Plan for the second half of year is a more flexible offering, given the ongoing pandemic situation and potential for future impact, but Committee should note that the vacancy and the subsequent impact on service resources, together with additional work that may still be required to support COVID going forward, may impact the accuracy or deliverability of a fixed Plan. Additional resource for general audits may be sought from BDO audit service, who currently provide our IT audit service.

Providing an annual audit opinion for 2020/21 is currently at risk as there is unlikely to be sufficient coverage of audit activity. A partial opinion with a caveat is predicted given the unprecedented circumstances of this year and the limited audit resources.

There will be a commitment by the team to completion of the quarterly audit reviews of the key financial systems as a priority so assurance can be gained from these areas. The intention is to keep the Plan flexible so that any requests

or system changes in these unprecedented times can be best accommodated. Any changes to the Plan will be discussed with the Chair.

The Committee is

RECOMMENDED

- To review and approve the Internal Audit Plan for the period October 2020 to March 2021

1. PURPOSE OF THE REPORT

- 1.1 To highlight to Committee the planned Internal Audit coverage for the second half of the year October 20 – March 2021 and to recommend that this is approved by Committee.

2. BACKGROUND

- 2.1 The Accounts and Audit Regulations 2015 require that the Council ‘.....must undertake and 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 Committee’s Terms of Reference.
- 2.2 The Council requires the Internal Audit 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 The Resources Service underwent a formal restructure and changes were effective in the Internal Audit Service from July 2019. This resulted in the transfer of the Insurance and Risk Management Services away from the Internal Audit Service. All posts within the Internal Audit Service were downgraded. Earlier this year the Audit Manager resigned and the Service has now only consists of the two remaining Auditors, both of which are part time. One has now stood up as the Acting IA Manager, although in the current COVID environment, IA resource has been redeployed onto more urgent assurance tasking and regular IA suspended. To service the 2020/21 Audit plan, additional resource from our existing partners at BDO will be arranged. Going forward, additional internal resource will be recruited to fill and enhance the function.

- 3.2 In addition to the delivery of internal audit reviews, time should also be allocated to the following, where possible:
- preparing for the five yearly independent assessment of internal audit as required by PSIAS (although this may be deferred due to resourcing and COVID reasons)
 - increasing the number of follow-up reviews on actions that have been declared by managers to be fully implemented
 - providing support to the Council's transformation programme
 - continuing support for COVID-related work.

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 Council's 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, defer, add or remove audits throughout the year.
- 3.4 The Committee agreed last March that the approach to focusing on current and future risks would continue and that the audit plan should be prepared on a six-monthly basis. This plan follows that agreement.
- 3.5 Due to the need for COVID actions now and an uncertain future need, the Plan has been prepared on a priority basis - ensuring that reviews of key financial internal control systems are completed followed by areas of current risk. Corporate Governance Committee members and the Senior Leadership Team were asked for ideas or suggestions of areas that could be considered for inclusion in the plan. Committee may wish to consider what they consider to be priority work/risks.

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), along with the absence of the Internal Audit Manager, may affect the ability to provide the Committee with a robust annual internal audit opinion.

- 4.2 The team is small when fully resourced, but is currently carrying a vacancy, and any further 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, may be able to deliver some non-IT audit, this is not a long-term solution. This has been discussed with the BDO and we will engage with the new account manager.

5. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

- 5.1 The Assistant Director (Corporate Services) is reviewing the structure and resourcing of the Internal Audit Service. In the short-term the Service can run with the two remaining, professionally qualified internal auditors (equating to only 1 FTE) reporting to the Assistant Director. A future plan to build a function to embed continuous assurance across HDC has been shared with Senior Leadership, the PFH and new Committee Chair.

6. LINK TO THE CORPORATE PLAN, STRATEGIC PRIORITIES AND/OR CORPORATE OBJECTIVES

- 6.1 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.

7. RESOURCE IMPLICATIONS

- 7.1 The 2020/21 service budget is sufficient to support only the internal audit establishment detailed in paragraph 3.1. However, since the Audit Manager post is vacant and a decision on the future resourcing needs to be examined, the budget may need to be reconsidered in light of such a decision.

8. REASONS FOR THE RECOMMENDED DECISIONS

- 8.1 The Committee's Terms of Reference require it to approve the Internal Audit Plan.

9. LIST OF APPENDICES INCLUDED

Appendix 1 - Internal Audit Plan October 2020 – March 2021

10. BACKGROUND PAPERS

The Public Sector Internal Audit Standards

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Internal Audit & Assurance Plan Oct 2020 – March 21

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.

October 2020 – March 2021 Resources

There is significant uncertainty over the number of resource days that may be available to Audit in the second half of the year – due to vacancy, continuing redeployment support from auditors in recovery and government business grants obligations, possibility of buying-in extra resource, use of IDEA, etc. With so many factors affecting the resource, it is deemed impractical to attempt to provide this number of days.

It is also anticipated that, due to the nature of this unprecedented year, there should be more requests for Audit assistance and advice from Services as their systems and processes adapt to a 'new normal'. It is important/prudent therefore for the Audit Plan to be flexible and agile so that it can incorporate such service demands and reviews. It is further anticipated that work will need to be done to boost the Council's Risk Management system and assist management in bringing it up to date to become a reliable and useful tool. This, too, will come at the expense of the Audit Plan.

With this in mind, in place of an Audit Plan consisting of a formal list of audit reviews intended to be undertaken, a list of audits in priority order is given instead. A commitment can be given to those audits at the top of the list and where resources allow or more resources are added, more reviews will be carried

out. There will be a minimum commitment to completing the quarterly reviews on all key financial systems.

This list incorporates: key financial systems; audits not carried out from 19.20 Plan; suggested areas from Management Team; areas where a quick delve is felt would be beneficial to the Council.

Quarterly assurance reviews for the following main financial systems:

Accounts Payable
Accounts Receivable
Housing Benefit Creditors
Housing Benefit Debtors
Council Tax
NNDR
Main Accounting System

General Reviews:

Completion of ongoing 2019/20 audits currently underway

COVID Cost Centre review

Risk issue: To ensure that all COVID-related activities and expenditure have been identified and charged to this account for recompense from the government.

Purchasing / Procurement Card review (during COVID period) – linked to above

Risk issue: controls during an emergency period are sometimes less robust and this includes controls over expenditure.

To ensure that the purchases made in the covid period were correct and justified and whether controls were applied or were relaxed.

Budget Monitoring & Control (from 19.20 Plan)

Management of Cashflow (from 19.20 Plan)

MTFS Robustness of Forecasts (from 19.20 Plan)

Section 106 Arrangements

Car Parking permits (Service request)

Income (sundry debtor procedures) (suggested by Audit team due to known concerns)

Risk issue: are the processes and procedures followed within the Income team sufficiently robust and capable of ensuring all debts are pursued/recovered in a timely manner?

Apprenticeships and Work Placements

Risk issue: Is the Council making best use of the Apprenticeship levy in terms of training staff and succession planning etc?

Market Refunds (issue area known to Audit team)

Risk issue: are refunds proportionate and economically efficient?

One Leisure Discounted memberships (suggested by Audit team)

Risk issue: are the corporate and social discounts calculated on a sound basis and adequately controlled?

Staff Training (from 19.20 Plan and request by MD)

**IT audit reviews – all of these will be undertaken exclusively to the priority list above
Cloud Security and Strategy**

Cyber Security Risk Management

Digital Services - Development and Management

Data Analytics (IDEA work in collaboration with internal audit team) – not confirmed

Follow Up (of previous audit actions)

In addition to reviewing the areas listed above, time may also be spent providing the following:

- support VfM opportunities within the council's transformation programme.
- completing reviews that are currently underway from 2019/20 plan (to include Enforcement Policy, My Dashboard/Sickness Monitoring)
- providing help and advice to managers
- Monthly 4Action reports, follow-up reviews of agreed audit actions introduced
- managing whistleblowing allegations
- engage with the National Fraud Initiative
- in-team file reviews to quality assess the audit work undertaken
- supporting the work of the Corporate Governance Committee through the annual governance statement and its annual reporting.

The Internal Audit team will commit to providing assurance work on the key financial systems as a priority and as a minimum. After this, resource will be spent on the general audit reviews listed above and be dependent upon resources made available. It is reiterated that resources may be diverted from the Team to continue to support COVID-related obligations as and when they arise or continue (eg post payment assurance requirements from the government for COVID business grants, recovery work, review of COVID charges etc). Given the limited resourcing in the team already, this year's capacity is limited and may continue to affect the assurance opinion.

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July 2020

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