

# Joint Audit and Governance Committee



Report of Internal Audit Manager

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To: Joint Audit and Governance Committee

DATE: 13 July 2020

## Internal audit plan 2020/2021

### Recommendation

That members approve the internal audit plan 2020/2021

### Purpose of Report

1. The purpose of this report is:
  - to explain the process for setting the internal audit plan and for calculating the resources available; and
  - to set out the proposed internal audit plan for 2020/21.
2. The contact officer for this report is Victoria Dorman-Smith, Internal Audit Manager for South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC), telephone 01235 422430.
3. The report was due to be presented at the joint audit and governance committee meeting scheduled for 23 March 2020, which was cancelled. Therefore, the revised internal audit is presented at this meeting, which reflects nine months of auditable activity (1 July 2020 to 31 March 2021) along with internal audit priorities following Covid-19.

## Strategic Objectives

4. Delivery of an effective internal audit function will support the councils in meeting their strategic objectives.

## Background

5. The definition of internal audit is set out in the Public Sector Internal Audit Standards (PSIAS): “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. It may also undertake consulting services at the request of the councils, subject to there being no impact on the core assurance work and the availability of skills and resources.
6. Internal audit supports the interim head of finance (section 151 officer) in discharging his/her statutory duties, particularly in relation to the following legislation:
  - The Local Government Act 1972 states that the section 151 officer is responsible for ensuring that there are arrangements in place for the proper administration of the authority’s financial affairs.
  - The Accounts and Audit Regulations state that ‘A relevant body must maintain an adequate and effective system of internal audit of the control environment and systems of internal control’.
7. The PSIAS states that the head of internal audit should prepare a risk-based audit plan, and for plans to receive input from management. It also states that the plan should outline the assignments to be carried out and the resource requirements to deliver the plan. The PSIAS also states that the audit committee should approve the internal audit plan and monitor progress against the plan. This document sets out the proposed audit plan for 2020/21, together with potential audit reviews in 2021/22 and 2022/23.

## The Audit Planning Process

8. The PSIAS refer to the need for the risk-based plan to consider the requirement to produce an annual internal audit opinion and report that is 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.
9. To support this, the risk-based plan needs to take into account the risk priorities per the SODC and VWHDC corporate risk registers, review of large or significant income and budget spend and review of the corporate priorities and objectives.
10. The approach to the audit planning process was agreed by the interim head of finance. The following steps were undertaken:
  - Step 1:** The SODC and VWHDC corporate risk registers have been reviewed as the starting point for the audit planning process as this represents management’s assessment of the risks to the councils achieving their strategic objectives. Checks have been performed to ensure that high

and medium risks are included as a possible audit area in the Schedule of Auditable Activity (SAA).

**Step 2:** Areas of large or significant income and budget spend across each service area have been reviewed to ensure that they are included as a possible audit area in the SAA.

**Step 3:** The SAA is attached in **appendix 1** and lists every possible audit area at both or either SODC and VWHDC. The audit areas have been reviewed and updated to reflect the current organisational structure and division of responsibilities across each service area. Each audit has been rated by the internal audit manager and critically reviewed by the interim head of finance on a number of risk factors to give a priority score, and this assists in the assessment of what should be placed in the annual audit plan. Although scoring is subjective and no two people would score alike the process attempts to introduce a degree of objectivity into the assessment process.

**Step 4:** Meetings for the original internal audit plan were held between the internal audit manager and heads of service, service managers and the chief executive in January and February 2020, and meetings for the revised internal audit plan were held in June 2020. The purpose of the meetings were to obtain insights into the level of risk exposure within each service area across both councils. In addition, heads of service have requested that, where required, specific function(s) within their service area are reviewed as part of the planned assurance or consultancy work for 2020/21 or future years.

**Step 5:** The proposed audit plan for 2020/21 has been finalised with the interim head of finance.

11. Due to the changing environment that exists in Local Government, there is a need for an element of flexibility in the audit plan due to potential changes in the council risk profiles and the potential for emerging risks. The SAA and corporate risk registers will be discussed between the internal audit manager and heads of service regularly throughout the year, and it is possible that changes to the audit plan may be required.

### Allocation of Audit Resources

12. The resources available to deliver the internal audit annual plan 2020/21 are arrived at by starting with the number of days available for all internal audit posts within the team. This is then reduced by the estimated numbers of days lost through annual leave, bank holidays (planned) and sickness absence (unplanned). The remaining days available are then allocated between the various elements of work which are expected to be carried out in the year in order to deliver an effective internal audit service.
13. The calculation of days available and the allocation of days between different categories of work is attached as **appendix 2**. The different categories of work are classed as either chargeable or non-chargeable. Chargeable means the work has an identifiable client or is directly linked to the delivery of internal audit services. Non-chargeable means any other work which is not directly linked to the delivery of internal audit services (for example: admin, corporate responsibilities, training, staff briefings).

14. An explanation of the individual variances against the previous year allocation is provided in **appendix 2**.

### Internal Audit Plan

15. The risk-based audit plan is constructed in such a way that reflects the councils risks and key priorities at a single point in time. However, throughout the year, the internal audit manager will perform regular risk assessments. In the event of emerging risks, there is budgeted hours within the audit plan to respond to these risks, if required.
16. Compared to previous years, the 2020/21 proposed audit plan includes a greater number of budgeted hours for consultancy audit work, which focuses on risk, governance and control matters, and takes into consideration management need as opposed to internal audit's assessment of risk. In comparison to traditional assurance audits, consultancy work enables internal audit to support service teams, whilst not assuming management responsibility, to improve risk, governance and control on a real time basis, especially in relation to new or changes to existing processes and systems.
17. The outputs from the audit planning and allocation of resources process have been prioritised to produce an audit plan that considers the following:
- the requirement to give an objective and evidenced based opinion on aspects of governance, risk management and internal control;
  - the requirement for internal audit to add value through improving controls, streamlining processes and supporting corporate priorities;
  - the need to allocate a suitable number of contingency days to respond to emerging risk, governance and control matters;
  - the need to allocate a suitable number of investigation days for fraud or whistleblowing purposes;
  - to support the interim head of finance's requirement for a cyclical review of all financial systems throughout the councils, of which the audit coverage shall be determined by the interim head of finance.
18. The internal audit plan for 2020/21 is designed and constructed in such a way to enable the internal audit manager to form an opinion on the adequacy of each council's control environment, taking into consideration available audit resources. This opinion forms an important independent view of each council's operations that feeds into and supports each council's annual governance statement.
19. The proposed internal audit plan for 2020/21 is attached in **appendix 3** and has been agreed with the interim head of finance and has been considered by the senior management team (SMT). Any changes to the work programme (e.g. due to changes to the council risk profiles or due to management requests) will be agreed with the interim head of finance and reported to the audit committee.

### Individual Audits

20. For each audit, not all aspects within a specific area are necessarily examined. Actual audit coverage is decided at the time of the audit in consultation with key management and officers. This ensures that current issues together with recent coverage by internal audit or external bodies determine the scope of the work.

21. An estimated start date for each audit is included in the audit plan in **appendix 3**, which aims to ensure the availability of key management and officers. We will, however, seek to agree a date which is convenient to the officers involved during the scoping of each review.
22. Upon completion of the audit fieldwork, the auditor will draft a report and arrange to meet with the auditees, to ensure factual accuracy of the audit observations and findings and to ensure a proper understanding of the risks to which any action plan relates.
23. A formal audit report will be issued for all planned assurance audit work, which will provide an overall assurance rating, along with key observations and recommendations for each audit objective. However, upon identification of any high-risk issues, internal audit will immediately notify management during the course of the audit to enable appropriate remedial action to be taken prior to being formally published in the audit report.

### **Follow Up Reviews**

24. For annual audits (i.e. key financial topics), follow ups are completed as part of the next internal audit review. For all other planned assurance work, the timing of the follow up is dependent upon available audit resources, however, internal audit will aim to complete the follow up review within six months of distribution of the final audit report.
25. For consultancy work, the completion of follow ups will be agreed with key management and officers.
26. For any open recommendations remaining after completion of the follow up, regular monitoring of recommended actions will be performed by internal audit and reported to committee.

### **Reporting to the Audit Committee**

27. Monitoring of internal audit's progress against the audit plan along with summarising the outcomes of recent audit and follow up work will be presented to the audit committee.
28. Following completion of the internal audit plan for 2020/21 we will produce an annual internal audit report on the work of internal audit in the year ended 31 March 2021, and to advise the committee of the internal audit manager's opinion on the overall adequacy and effectiveness of the internal control environments at SODC and VWHDC.

### **Financial Implications**

29. The audit plan can be delivered from within the approved 2020/21 budget, therefore there are no financial implications attached to this report.

### **Legal Implications**

30. None

**Risk Implications**

31. Identification of risk is an integral part of all audits.

VICTORIA DORMAN-SMITH  
INTERNAL AUDIT MANAGER