

AUDIT COMMITTEE

Internal Audit Strategy and Draft Audit Plan Priorities 2021/22

24 March 2021

Report of Internal Audit and Assurance Manager (IAAM) (Chief Internal Auditor)

PURPOSE OF REPORT

Review and approval of the Internal Audit Strategy and consideration and approval of the draft audit plan priorities for 2021/22 (Quarter 1 only).

This report is public

RECOMMENDATIONS

1. The Internal Audit Strategy be approved by the Audit Committee and it be noted that the IAAM is reporting that at present the work of the Internal Audit Team is not fully aligned to the current strategy.
2. The Audit Committee consider and approve the draft audit plan priorities for Quarter 1 of 2021/22 and note that further development of the plan is required to ensure an overall audit opinion can be delivered as at the 31 March 2022.
3. The Audit Committee note that the current arrangements with Wyre Borough Council for the sharing of the Chief Internal Auditor role will cease on the 31 March 2021.

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include the wording: "To approve the risk-based internal audit plan, including resource requirements and the approach to using other sources of assurances and any work required to place reliance upon those other sources".
- 1.2 Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN) (CIPFA 2013) Professional standards for Internal Audit in local government specify that "The Chief Audit Executive (the IAAM) must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."

- 1.3 The standards also specify that “The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.”

2.0 Proposal Details

Internal Audit Strategy

- 2.1 In accordance with the PSIAS standards, an internal audit strategy is in place and is refreshed on an annual basis. No changes have been made to this strategy since it was last reviewed by the Audit Committee in February 2020. However, it is felt that at present, Internal Audit are not in a position to successfully deliver on all of its responsibilities as identified in the strategy. Help from the Executive Team is needed to enable the Internal Audit Team to meet its obligations to the organisation and ensure that standards of risk, governance and internal control are improved. The key areas where support from the Executive Team will make a positive difference are: 1) improved communication with and involvement of the internal audit team in the delivery of the corporate plan ambitions; 2) providing a more focused steer in respect of internal audit work priorities and; 3) assisting the team in raising its profile and awareness of the value the service can add in the organisation.

3.0 Draft Audit Plan Priorities 2021/22

- 3.1 Whilst in previous years an annual audit plan has been produced and presented to the Audit Committee for comment and approval, a decision has been taken this year to move to quarterly planning. This is mainly due to the on-going pandemic and the need for Internal Audit to be flexible and responsive to emerging risks across the organisation. However, it is also quite timely, given Wyre Borough Council have decided not to renew the current arrangement in respect of the shared Chief Internal Auditor role from the 1 April 2021.
- 3.2 Whilst it was hoped that the strategic and operational risk registers would have assisted with the development of this year's audit plan, this is not the case as they are still in the early stages of development following a number of delays during the course of the year (see report on Risk Management later in this agenda for further details regarding the nature of these delays). Therefore, the first section of the draft audit plan details the work that the current IAAM has identified as a priority and therefore requires completion during the first quarter (April – June). The second section details known forthcoming priorities for quarters 2-4, but recognising that this section will need to be revisited on completion of the risk registers, examination of all the assurance statements (still being compiled) and consideration of the resources required going forward by the Section 151 Officer and the Audit Committee.
- 3.3 The draft audit plan priorities for 2021/22 attached at Appendix B is currently based on estimated available resources of 220 days, this being delivered solely by the in-house Principal Auditor (1 FTE).

4.0 Financial Considerations

- 4.1 The current draft audit plan priorities for 2021/22 will be delivered within the overall budget for the internal audit and assurance service. However further consideration is needed in respect of financing the team's resources going forward.

5.0 Details of Consultation

- 5.1 The Executive Team and the S151 Officer have been consulted in the preparation of the draft audit plan for 2021/22. However, further consultation will need to be carried out once all the risk registers are in place, assurance mapping has been fully completed and additional resources have been identified and put in place.

6.0 Options and Options Analysis (including risk assessment)

- 6.1 The options available are to either accept the internal audit strategy which will provide the council and its internal audit function with the basis for continued compliance with established Internal Audit standards or recommend alternative wording if necessary. Any deviation from best practice or changes to the strategy should be agreed by the Section 151 Officer, the Audit Committee and be reported to the Council's External Auditors.

- 6.2 In addition, Members are invited to comment on and then approve the proposed draft audit plan priorities for Quarter 1 of 2021/22 only. There are no alternative options to be considered at this point in time.

7.0 Conclusion

- 7.1 A robust audit strategy and effective planning are key elements in the delivery of an effective internal audit service. The attached audit strategy and draft audit plan priorities, if successfully developed further in the coming months will assist the council in achieving its objectives and provide an overall opinion on the council's control environment, which is a required key source of assurance in the council's Annual Governance Statement.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

This report has no direct impact on these areas.

FINANCIAL IMPLICATIONS

The draft audit plan priorities for 2021/22 (Q1) can be delivered within the overall budget for the internal audit and assurance service. However, further budget considerations will need to be considered once the Section 151 Officer and Audit Committee Chairman have identified the resources required going forward.

SECTION 151 OFFICER'S COMMENTS

The delivery of the Council's audit strategy and audit plan are fundamental to the assessment of the Council's Internal Control environment. Given the current situation,

discussions have commenced around the future provision of internal audit services and several options are provisionally being considered and will be reported to the Committee.

Any new arrangements will impact the audit plan going forward and facilitate further engagement and support from Executive, as well as the embedding of risk management within the Council.

LEGAL IMPLICATIONS

None arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note (LGAN)

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Internal Audit Strategy

1.0 Internal Audit Strategy

- 1.1. This strategy is the high-level statement of how the internal audit service will be developed and delivered in accordance with its approved terms of reference (the Audit Charter) and how it links to the council's strategic organisational objectives and priorities.

2.0 Service Purpose

- 2.1 The key purposes of the internal audit service are to:

- provide the council* with independent assurance regarding the effectiveness of its systems of risk, governance and internal control;
- support the council in delivering organisational change and its development programme; and
- help the council secure and demonstrate value for money throughout its activities.

* This purpose also relates to Preston City Council with regards to the audit by Lancaster's internal audit of the revenues and benefits shared service arrangements.

3.0 Strategic Aims & Objectives

- 3.1 Internal audit's strategic aims and objectives are defined as:

- promoting and helping develop standards of risk management throughout the council's operations;
- contributing to improving standards of internal control and governance within the authority and its key partnerships;
- developing the corporate 'assurance framework' and coordinating the capture and reporting of sources of assurance;
- developing and supporting managers in the management of risk;
- working closely with the corporate enquiry team to develop programmes of work to combat and reduce the risk of fraud;
- supporting the council in identifying efficiencies and achieving value for money in service delivery; and
- continuing to develop the scope, robustness and effectiveness of internal audit's assurance work.

4.0 Identifying and accommodating significant local and national issues and risks

- 4.1 Emerging local and national issues that might warrant internal audit attention will primarily be identified through:

- contributing to the development, updating and monitoring of the assurance framework;

- reviewing the corporate plan, strategic risk register and individual service plans; and
 - regular consultation and liaison with the External Auditors, Section 151 Officer, Service Managers and the Executive Team.
- 4.2 This approach will seek to ensure that significant risks are adequately identified, assessed and evaluated in terms of the level of assurance necessary and already available, and will involve:
- tracking corporate policy/priority developments and the decisions taken by the authority's decision-making bodies;
 - regular consultation with service managers, the Executive Team and the Audit Committee Chairman;
 - regular liaison with other review bodies, especially the Council's external auditor;
 - liaison with/considering the approach and work programmes of other internal review bodies, for example the Overview and Scrutiny function;
 - liaison with other local government auditors and active participation in local/regional professional groups;
 - consideration of key corporate risks; and
 - maintaining a professional focus and taking advantage of opportunities for professional updates/development, including continuous professional development where appropriate.
- 4.3 In line with the Council's developing risk management policy and associated assurance framework, the risk-based audit plan should seek to provide assurance in areas of significant risk where alternative sources of assurance are not readily available. Typically this will tend to focus on the auditing of "underlying risks", being those risks which are not being addressed by a current corporate or service-based project or initiative. The plan will be reviewed and updated on a rolling basis to accommodate any emerging significant risks and assurance needs identified through an ongoing review of the assurance framework.
- 4.4 Internal audit activity may involve any one, or a combination of the following:
- a specific piece of internal audit assurance work;
 - efficiency/VFM or support work directed at improving the efficiency of existing procedures and/or standards of governance and control; or
 - contributing to corporate groups/projects/reviews (officer and/or Member based) established for a given purpose/objective.