

Report to the Audit and Governance Committee



Report reference: AGC-017-2019/20
Date of meeting: 23 March 2020

Epping Forest District Council

Portfolio: Leader of the Council

Subject: Internal Audit Strategy and Plan 2020/21

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) That the Internal Audit Strategy and Plan for 2020/21 be approved.

Executive Summary:

Internal Audit supports and contributes to the achievement of the Council's objectives by supporting good governance, with the outcomes from Internal Audit work feeding into the Annual Governance Statement. The Internal Audit Strategy and Plan for 2020/21, and the indicative work programme for the subsequent two years (2021/22 and 2022/23) sets out how this will be achieved.

Reasons for Proposed Decision:

To approve the Council's Internal Audit Plan as required in the Audit and Governance Committee's Terms of Reference.

Other Options for Action:

None.

Report

INTRODUCTION

1. The Internal Audit function provides independent and objective assurance and consulting services to Epping Forest District Council. This Internal Audit strategy summarises the key principles for the Internal Audit Team for the period 2020/21, with some longer term aims. The strategy supports the Audit Plan which sets out the work of the Internal Audit service for the year.

2. Internal Audit supports and contributes to the achievement of the Council's 2018-23 strategic aims. These have been taken into account whilst developing the Internal Audit strategy and plan, being:

- Stronger communities
- Stronger place
- Stronger council

PURPOSE

3. The purpose of the Internal Audit Strategy and Plan is to document the Internal Audit team's approach to:

- Provide independent and objective assurance to Members and senior management on the effectiveness of the Council's internal control framework.
- Ensure the recognition of the key risks the Council faces in meeting its objectives when determining and allocating the use of Internal Audit resources.
- Add value and support to senior management in providing effective control, whilst identifying opportunities for improving value for money.
- Deliver an Internal Audit Service that is compliant with the requirements of The Public Sector Internal Audit Standards.

INTERNAL AUDIT MISSION AND CORE PRINCIPLES

4. The Global Institute of Internal Auditors has developed an International Professional Practices Framework (IPPF) for auditors. The IPPF includes a mission and ten core principles. These have been adopted by this Internal Audit Shared Service and are listed below.

Mission: To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.

Core principles:

- *Demonstrates integrity.*
- *Demonstrates competence and due professional care.*
- *Is objective and free from undue influence (independent)*
- *Aligns with the strategies, objectives, and risks of the organisation.*
- *Is appropriately positioned and adequately resourced.*
- *Demonstrates quality and continuous improvement*
- *Communicates effectively.*
- *Provides risk-based assurance.*
- *Is insightful, proactive, and future-focused.*
- *Promotes organisational improvement.*

THE INTERNAL AUDIT APPROACH

5. While Internal Audit provides assurance through completing a programme of planned work the service is also flexible and responsive to changing and emerging issues. Some audit work is delivered on a consultancy basis, contributing advice on risk and controls, for example ex-officio attendance at project meetings or undertaking a specific investigation of a newly identified issue.

6. The purpose, authority and responsibility of Internal Audit is formally defined in the Internal Audit Charter, which was approved at the January 2020 Audit and Governance Committee.

KEY DELIVERABLES

7. The key deliverables for the Internal Audit service during 2020/21 are:

- *Delivery of the Audit Plan* - the Chief Internal Auditor will ensure there is sufficient audit coverage in order to provide an annual Internal Audit opinion and report, which feeds into the Council's Annual Governance Statement

- *Integrated approach to assurance* – Providing ongoing assurance to management on the integrity, effectiveness and operation of the Council's internal control, governance and risk management processes. Working with other assurance providers including External Audit to prevent duplication of work
- *Management commitment* - Ensure agreed management responses to audit recommendations made are implemented thereby improving the overall control framework
- *Continually develop our approach* – To develop, improve and deliver a quality assurance and improvement programme for the service, including working more closely with the Audit and Governance Committee
- *Business insight* - working more closely with Officers, Members and services to establish greater relevance to what matter most to the Council by contemplating current and future key risks and challenges.

PROTOCOL FOR AUDIT REVIEWS

8. We will conduct each review in line with our standard audit methodology which is aligned to the Public Sector Internal Audit Standards.

9. For each audit a Lead Auditee will be identified who will be involved in scoping to ensure the audit is appropriately focused on key risks areas, providing assurance and maximising added value. A terms of reference will be produced for each audit to ensure the scope, objectives and approach are agreed with the appropriate Service Director.

10. Following fieldwork, a draft Internal Audit report will be issued for discussion with the appropriate levels of management which is normally set out in the terms of reference.

11. Final reports will be issued after the agreement of draft reports and contain completed management actions plans identifying those responsible for their implementation and appropriate timescales.

12. Agreed actions or recommendations will be followed up through the Internal Audit tracker process. All high priority recommendations and any passing their original implementation date are reported to the Audit and Governance Committee.

QUALITY ASSURANCE AND PERFORMANCE MANAGEMENT

13. The Internal Audit Quality Assurance and Improvement Programme ensures the work of the Internal Audit function conforms with the Public Sector Internal Audit Standards (PSIAS), operates in an efficient and effective manner and is adding value and continually improving Internal Audit activity. This is achieved through internal and external assessment, monitoring, and reporting on performance.

14. In November 2016 the Internal Audit function underwent an External Quality Assessment (EQA) which, in line with the PSIAS, must be conducted every five years by a qualified independent assessor from outside the Council. The EQA, which covered all three councils in the shared service, confirmed the Internal Audit service complies with the Public Sector Internal Audit Standards. Annual internal review confirms this compliance still holds true.

15. To achieve planned coverage, deliver a high standard of customer care and demonstrate effectiveness of the service, performance targets have been established based on best professional practice.

16. The following service performance targets will be reported on in 2020/21:

Aspect of Service	Performance Indicator	Target
Audit Plan	<ul style="list-style-type: none">• Achievement of the annual Plan	<ul style="list-style-type: none">• Sufficient Internal Audit work in order that the Chief Internal Auditor can give their annual opinion.
Internal Audit processes	<ul style="list-style-type: none">• Issue of draft report after closing meeting• Issue of final report after agreement with client to draft	<ul style="list-style-type: none">• 10 working days• 5 working days
Effective management engagement	<ul style="list-style-type: none">• Management responses within 10 working days of draft report• Implementation of agreed audit recommendations	<ul style="list-style-type: none">• 10 working days• Within agreed timescales
Continuous Professional Development (CPD)	<ul style="list-style-type: none">• Auditors maintain and improve their knowledge, skills and other competencies through directed and self-directed activities.	<ul style="list-style-type: none">• 40 hours of CPD activity per auditor

DEVELOPING THE INTERNAL AUDIT PLAN

17. The methodology for developing the Internal Audit Plan is focused on the quantification of the risks associated with the Council's objectives in consultation with key officers. This process also takes into account:

- Knowledge and experience accumulated in Internal Audit, including the results of previous reviews
- A review of audit themes against the strategic risk register and Council priorities
- The work of other assurance providers both internally and externally
- The external environment including economic climate, Brexit implications, government initiatives such as welfare reform and changes in funding
- Harmonisation of themes with Harlow and Broxbourne Councils to enable benchmarking and sharing of good practice with other local authorities

18. It is imperative there is good alignment between the Internal Audit Plan and the risks facing each Council. Through this, Internal Audit's work will help inform each Council's risk management framework, enabling greater recognition of key mitigating controls and other sources of assurances available. Where possible the risks identified in the Audit Plan (Appendix A) have been taken directly from the Council's Risk Register.

19. In addition, an assurance map has been produced (Appendix B) that provides a structured way to identify the main sources and types of risk assurance in the Council. This demonstrates sufficient Internal Audit work has either been undertaken or has been planned for the Council's key risks.

20. The Internal Audit Plan is indicative, and changes may need to be made as the risk profile and priorities of the Council change. This will be achieved by ongoing review and amendment in consultation with relevant officers and any significant changes brought to the Audit and Governance Committee for approval.

21. It is important for Internal Audit to plan ahead and allocate resources over the medium term but still maintain a flexibility of approach. This is achieved by documenting known risks over a three-year period so that the three-year plan includes an indication of proposed audit work for years two and three, based on current known risks if circumstances remain unchanged. However, as new risks emerge audit resources over the medium term will be focused accordingly.

22. The sections of the Internal Audit Plan include:

- Corporate Framework – key risk areas including those defined in the Council's strategic risk register
- Strategic themes – including cross cutting issues some of which will be incorporated within operational audits or will be undertaken through consultative work.
- Service areas – operational audits determined on a risk assessment and/or business priority.

PRIORITY AREAS FOR 2020/21

23. Having regard for the current risk profile of the Council the following have been identified as priority areas for Internal Audit work for 2020/21. These may not be audits in themselves, but cross cutting themes that will be fundamental to the scope of Internal Audit work undertaken:

- *Change Management* – As the Council continues with its transformation programme Internal Audit assurances will aim to complement management's and those from other assurance providers.
- *Information Governance and Management* - Internal Audit continues to work with the Council's Data Protection Officer, helping to ensure and maintain compliance across the Council
- *Risk Management* – Internal Audit has a key role in promoting effective risk management and will continue to work with the Risk Management to help develop and embed a robust risk management framework across the Council. Within individual audits Internal Audit will seek compliance with good risk management practices and the adequacy of controls put in place by management to mitigate risks in their service areas.
- *Fraud* – Internal Audit will support the Council's anti-fraud and corruption strategy and consider the potential for fraud within work, working in tandem with the Corporate Fraud Team.
- *Value for Money (VfM)* – a focus on VfM will be reflected in Internal Audit's work mainly as a cross cutting theme within operational audits, benchmarking where appropriate with Harlow and Broxbourne. Audits will consider how the Council

makes the best use of resources and assets, the balance of cost and performance and meeting the needs of our residents; and providing challenge on whether services could be provided in a different way.

- *Audit and Governance Committee Support* – Internal Audit will work with the Audit and Governance Committee in developing its role in relation to best practise and to contribute to effective corporate governance of the Council.

24. At the operational level the key priorities of Internal Audit work in 2020/21 include:

- *Qualis* – Internal Audit will gain assurances that the governance structure for the Group and individual companies are in the best interest of the Council. Post 2021/20 Internal Audit will actively seek assurances on the adequacy of control, governance and the management of risks regarding individual Qualis companies from the Council's perspective.
- *Key Financial Systems* – the effectiveness of controls and management of risks with the core financial systems remains a key part of the Internal Audit work. Audits are scheduled on a cyclical basis so not all key financial systems will be undertaken each year.
- *Project/Contract Management processes* – a number of audits will help assess the Council's approach to project and contract management

RESOURCES

25. 2019/20 has been the third year of the formal shared service between Broxbourne, Epping Forest and Harlow Councils, with Broxbourne being the host authority and employer of the shared Internal Audit staff. A Shared Services Board meets regularly to oversee the implementation and delivery of the Internal Audit function, monitor common issues or themes arising from audits, assess quality and performance, manage risks and consider major changes to the service. The Board comprises of key Officers from Broxbourne, Harlow and Epping Forest as well as the Chief Internal Auditor.

26. The Internal Audit function consists of the Chief Internal Auditor (1.0 f.t.e), three Senior Auditors (2.8 f.t.e) and three Auditors (each 1.0 f.t.e). One of the Auditor posts is being covered by an apprentice with a view to take them on permanently subject to performance. This was the same route taken by one of the other Auditors, who was made permanent in September 2019. In addition, the service has a call off contract with an external provider of Internal Audit to undertake more specialist audits when required.

AUDIT PLAN 2020/21

27. The Audit Plan as detailed in Appendix A requires 440 days (the same as last year), as set out in the table below:

Thematic Area	Audit days
Corporate framework including governance, assurance framework, fraud, value for money and risk management	67
Information and performance management audits	22
Projects, Joint Working and Partnership audits	27
Financial audits	51
IT Audits	32
Cross cutting/themed audits	86
Operational Audits	64
Follow Up work	35
Audit and Governance Committee support	20
Advice, other engagement with the business and contingency	36
TOTAL	440

Resource Implications:

No additional resources required.

Legal and Governance Implications:

The responsibilities, duties and obligations of Internal Audit are set out in the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (2017) against which Internal Audit activity should be measured and determined.

Safer, Cleaner and Greener Implications:

None

Consultation Undertaken:

Corporate Governance Group

Background Papers:

Public Sector Internal Audit Standards, Internal Audit Charter, Internal Audit resource plan and risk assessment.

Risk Management:

Failure to achieve the audit plan may lead to a lack of assurance that internal controls are effective and risks properly managed.

Equality Analysis:

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report.