

# Audit Committee

18 March 2021



<b>Title</b>	<b>Internal Audit Annual Plan 2021/22 and update on 2020/21 audit workplan</b>
<b>Purpose of the report</b>	To note
<b>Report Author</b>	Punita Talwar, Internal Audit Manager
<b>Cabinet Member</b>	Councillor Sati Buttar
<b>Confidential</b>	No
<b>Corporate Priority</b>	Financial Sustainability
<b>Recommendations</b>	<b>Audit Committee is asked to:</b>  <b>1. Approve the annual internal audit plan for 2021/22</b> <b>2. Note the update summary on the 2020/21 audit workplan</b>
<b>Reason for Recommendation</b>	<b>Not applicable</b>

## 1. Key issues

### Audit Planning 2021/22

- 1.1 Accounts and Audit Regulations 2015 require local authorities 'to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, applying mandatory public sector internal auditing standards or guidance'.
- 1.2 Internal Audit is defined as "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." (Public Sector Internal Audit Standards).
- 1.3 This report sets out the work planned by Internal Audit during 2021/22 to fulfil its statutory and professional requirements. In view of the ongoing pandemic focus will be given to COVID-19 related workstreams around response and recovery, emerging risks across service delivery, whilst also auditing higher risk areas that align with Spelthorne's corporate priorities.

- 1.4 A copy of the Internal Audit Annual Plan (2021/22) based on the 'prioritised audit need' is attached at Appendix 1. This includes key categories relating to:
- audit assurance assignments
  - audit support and advisory work
  - Audit Committee - statutory requirements/processes and reporting
  - audit follow up (recommendations)
  - corporate roles and responsibilities (corporate risk management and corporate counter fraud)

There are other additional tasks that support the delivery of a professional audit service and some of these are likely to be unforeseen / reactive by nature, whilst adding value.

- 1.5 It is considered that the proposed audit work as detailed in the Annual Audit Plan together with other corporate matters can be undertaken with the current resource level with 50 contractor days. Contractor support is within the current budget and relates to those more specialist area such as IT.
- 1.6 It is acknowledged that there is 20 days of work planned to complete this year's Audit Plan in the first quarter of 2021/22. This carry over of work has materialised due to the impact of Covid on the work of the authority and resources being diverted to that effort, as well as a period of absence in the team during the third quarter of 2020/21.
- 1.7 A priority rating (A or B) for undertaking proposed assignments has been recommended in the audit plan at Appendix 1. There is also reference to key risk considerations and audit objectives for each audit assignment or planned advisory area.
- 1.8 When referring to the overall assurance framework, Group Heads and Managers represent the first line of defence and are accountable for establishing and maintaining appropriate systems of internal control. Independent assurance provided by Internal Audit (third line of defence in the overall assurance framework) will continue to focus on the effectiveness of the control environment in managing risk at all levels, supported by appropriate verification processes. Audit findings during 2021/22 will be raised with senior management, and recommendations aimed at enhancing control processes and reducing risk will be reported to the Audit Committee.
- 1.9 Internal Audit findings will form the basis of the annual audit opinion for 2021/2022 on the adequacy of the authority's control environment which feeds into and underpins the Annual Governance Statement. To enable the Internal Audit Manager to provide an independent evidence based annual audit opinion, **there needs to be a sufficient quantity and breadth of audits undertaken to ensure reasonable coverage of auditable areas on which to form an effective opinion.** This is therefore an important factor for consideration in the Audit Planning process.

1.10 Further background regarding the audit planning process is set out below:

- (a) All auditable areas are identified (known as the 'Audit Universe', consisting of around 80 discrete areas). These broad categories include:
  - Significant risks included in the Corporate Risk Register
  - Corporate systems and processes
  - Financial and fraud risks
  - Fundamental financial systems
  - Functions operating within service areas
  - Information governance and security
  - Asset acquisitions and Investments
  - Key Council projects
  - Preparedness for significant legislative changes / government led initiatives
- (b) Group Heads and Managers have been consulted during the audit planning process (January/February 2021) to discuss emerging risks and consider review areas for inclusion in the plan.
- (c) An audit needs assessment is undertaken, and audit work is prioritised which is related to factors such as high-level risk evaluations, budgetary implications, value/volume of transactions, known system weaknesses and vulnerabilities, fraud risk or previous irregularities, changes in personnel, time elapsed since last audit, alternative sources of assurance, management requests for Internal Audit input and audit resource available.
- (d) In establishing audit priorities for 2021/22 focus continues to be given to ensuring alignment with Spelthorne's emerging corporate priorities and objectives and the more significant risk areas. Best practice guidance from professional auditing bodies regarding topical organisational risk areas for 2021 (based on extensive research) has also been reviewed, ensuring the inclusion of cybersecurity, regulatory change and compliance and financial and liquidity risks in Spelthorne's audit plan.
- (e) Some areas identified during the audit plan consultation process have not been incorporated within the 2021/22 audit plan. These will be subject to consideration in future years and form part of the longer-term audit plan/strategy.

### **Status of Audits from 2020/21 Audit Plan and other work**

1.11 Since previous reporting to the Audit Committee in November 2020, the key work areas undertaken by the audit team from December to February 2021 include the following:

- Audit scoping, fieldwork, and management of audit assurance reviews.
- Commissioning audit contractor resource following consideration of alternative service providers, to provide enhanced specialist skills and

support delivery of the audit plan. Regular liaison with appointed service provider.

- Internal audit planning for 2021/22 and preparation of the risk-based audit plan.
- Annual review of internal audit effectiveness and assessment of conformance to PSIAS.
- Covid-19 Risk Considerations - updates, coordination, and reporting.
- Corporate Risk Management – revising format of the register; preparing an executive summary of the Corporate Risk Management Policy (subject to review by the Audit Committee).
- Corporate Counter Fraud oversight, including liaison with service provider and the legal team, MAT reporting relating to additional investment, collation of financial fraud returns for high-risk public fraud activity;
- Audit Follow Up of recommendations
- Advisory work (re-active and pro-active) and attendance at various working groups
- Exploring Data Analytics software trial for trade creditors

1.12 At February 2021 the following audit assurance reviews have been completed:

- Finalisation of priority audits brought forward from 2019/20
- Procurement - follow up review and supplier analysis (Final report issued January 2021)
- Covid-19 Pandemic Workstream – Support 4 Spelthorne Welfare Hub & Additional Expenditure (Final report issued January 2021)
- COVID-19 -19 Pandemic workstream – Business Support Grants (Draft Report issued December 2019)
- Core Financial System - Creditors (Draft Report issued February 2021)
- Core Financial System - Treasury management (Fieldwork completed end of February and draft report to be issued shortly)

1.13 The following audits are scheduled to be undertaken from March 2021, some of which will be undertaken by an external service provider to support delivery of the plan:

- ICT Audit – Health check and general control processes
- ICT Audit – Network Infrastructure
- Workplace Culture and Ethics
- Climate Change
- Commercial Assets and Investments
- Property Development
- Core Financial System – Debtors, to incorporate a review of income processes relating to the Community Infrastructure Levy (CIL)
- Housing Benefits Overpayments (depending upon auditee availability)

1.14 The pandemic response has created additional pressures across all service areas of the Council, requiring some reprioritisation of audit work. At the request of Management the planned audit of Emergency Planning has been deferred to 2021/22 and the Communications Audit has been deferred to

2022/23. In view of the planned audit of Debtors has been expanded to incorporate a review of CIL income and a planned review of Housing Benefit Overpayments has been brought forward.

## **2. Options analysis and proposal**

The Group Head of Corporate Governance and the audit team are working to consider how the audit process can be streamlined to provide the Council with the assurance needed but to provide added value to the Council as a whole.

### **Financial implications**

- 2.1 The Internal Audit Annual Plan includes reviews of functions and systems that are financially material and therefore represent greater risk to the authority.
- 2.2 Externally commissioned resource to support delivery of the 2021/22 audit plan is approx. 50 Days and will be funded from the audit contractor budget of £20k. Externally commissioned resource to support delivery of the 2020/21 audit plan is approx. 66 Days and is being met from the existing audit contractor budget of £20k plus an approved carry forward amount from 2019/20 for ICT Audit work.
- 2.3 It is not known at the start of any given year, there may be a requirement to bring in subject matter experts and Investigators to undertake or support special investigations (for relating to suspected internal fraud or irregularity). There is insufficient capacity within the Internal Audit team to undertake the whole process, given that investigations are often by their nature very resource intensive. Where appropriate, support will be sought through collaborative working arrangements with Reigate and Banstead Council's counter fraud team. This may need to be supplemented with subject matter expertise depending upon the nature of the suspected fraud or irregularity for which there is currently no budget and it is difficult to quantify an overall estimated cost for 2021/22 (unforeseen works).

## **3. Other considerations**

- 3.1 The Internal Audit Annual Plan has focussed on the areas of higher priority and given due consideration to current and emerging risk (and opportunities) facing the Council during 2021/22.
- 3.2 The Plan is intended to be flexible and agile to consider changing priorities according to perceived risks. This is particularly relevant in the current pandemic environment and uncertainty that prevails.

## **4. Sustainability/Climate Change Implications**

- 5.1 An audit review of Climate Change is scheduled to commence in March 2021 and any recommendations arising will be reported to Audit Committee in July. These will aim to support continued sustainability and climate change measures.

## **6. Timetable for implementation**

- 6.1 The Internal Audit Annual Plan sets out work to be undertaken by the Internal Audit team during the 2021/22 financial year. Group Heads and Managers have been consulted on the most opportune timing to conduct these reviews for the authority to gain maximum value from the audit process. Where there has been early indication of preferred timing from colleagues this has been recorded at Appendix 1.

**Background papers: There are none**

**Appendices:**

**Appendix 1 – Internal Audit Annual Plan 2021/22**

**Appendix 2 Audit Recommendations (Open or Closed)**