

# Audit Committee

28 July 2022



<b>Title</b>	Refreshed Internal Audit Plan 2022/23
<b>Purpose of the report</b>	To note
<b>Report Author</b>	Internal Audit Manager, Punita Talwar
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Exemption Reason</b>	Not Applicable
<b>Corporate Priority</b>	Community Affordable housing Recovery Environment Service delivery
<b>Recommendations</b>	<b>Committee is asked to:</b> <b>1. Note and approve the revised Internal Audit Plan for 2022/23 at Appendix A. This is based on current level of audit resource continuing to operate throughout 2022/23.</b>  <b>2. Note that the incoming permanent Group Head of Corporate Governance will be advising this Committee further on any future additional resourcing (subject to approval). In the interim, the Internal Audit Manager has set out alternative options to explore in addressing service priorities and business needs, including risk implications and considerations associated with each option.</b>
<b>Reason for Recommendation</b>	<b>Under Public Sector Internal Audit Standards (PSIAS) the Audit Committee are required to approve the annual audit plan.</b>

## 1. Summary of the report

- 1.1 This report seeks to inform the Audit Committee of the refreshed risk-based Internal Audit Plan for 2022/23 to fulfil statutory and professional requirements. This is set out in Appendix A.
- 1.2 Appendix A sets out anticipated service delivery based on maintaining the current level of internal audit resource operating at 1.75 FTE plus approx. 30 audit contractor days. It provides reference to the various workstreams

undertaken by the team, which go considerably beyond core audit assignment work and include:

- Counter Fraud
- Corporate Risk management
- Promoting and facilitating implementation of a Risk Appetite Framework
- Ongoing statutory reporting to Audit Committee
- Internal audit planning process and consultations to ascertain emerging/evolving risks
- Production of an Annual audit opinion, feeding into the Annual Governance Statement
- Following up audit recommendations
- Audit advisory work, including input to working groups
- Developing continuous improvement practices
- PSIAS adherence, reviews and considerations

Total plan days are 409, reflecting current resource available. The audit planning process and approach undertaken to ascertain 'audit need' (effectively business need) in producing the prioritised workplan has been previously explained in our report of March 2022.

- 1.3 Further to discussions at Audit Committee in March 2022 regarding the Internal Audit Plan for 2022/23, it has been a timely opportunity to reflect again on service and business needs, as well as existing capacity levels, to ascertain priorities that cannot be delivered within current resources. This is elaborated on in the report. All audit work areas identified as 'Priority A' encapsulated in the refreshed plan at Appendix A are deliverable under existing resources. There are eighteen 'Priority A' areas and two 'Priority B' areas that are deliverable.
  - 1.4 As previously reported, the wider implications arising from externalities such as the geopolitical and macroeconomic environment will continue to be a key consideration in the Council's risk exposure, impacting across Council Services and local communities. It remains important therefore as part of our work to ascertain how the Council is adapting to these external pressures and managing associated risks.
- 2. Key issues**
- 2.1 At the March meeting of the Audit Committee, it was highlighted that the audit apprentice growth bid originally submitted as part of the 2022/23 budget process, whilst initially supported and approved had not succeeded through the final stage. The original audit plan for 2022/23 had already been prepared by the Internal Audit Manager (and published for the Committee agenda) on the impression that the apprenticeship audit growth bid had indeed been approved, with planned allocations for this resource from July 2022 (Quarter 2 onwards). Consequently, the risk-based Internal Audit Plan for 2022/23 as presented to Audit Committee on 24 March 2022 is no longer deliverable based on the current level of audit resource operating.

- 2.2 Whilst the Audit Committee noted the content of the audit plan, they did not approve the 2022/23 audit plan presented in March, requesting that the resourcing for the team be considered further, with a refreshed audit plan to be presented to the July Audit Committee.
- 2.3 We have therefore taken an opportunity to reflect again on service needs for the Internal Audit function and conclude that an audit apprenticeship officer is no longer a desirable solution. This proposal was originally put forward and led by the former Group Head of Corporate Governance who departed in March, and whilst benefits of growing organisational talent are recognised, the adverse impact on an already small and overstretched team is important to recognise. There would be additional strain on the part time Internal Audit Manager in training and supporting an Apprenticeship who is likely to hold no experience, knowledge or skillset of internal auditing. The Senior Auditor in the team would also be expected to support this process. These strains would divert time away from planned and reactive workstreams and tasks, adding increased pressure and further impacting capacity levels, reducing service delivery and independent assurance provision to the Council. Furthermore, training, supporting and guiding someone with no prior audit experience is not envisaged to be a short-term service challenge, but rather an ongoing factor for consideration over the next 2 to 3 years.
- 2.4 Training for an internal audit role requires considerable on the job experience over the course of time, gaining a thorough understanding of internal audit principles, practices and methodologies and their suitable application; how systems of internal control should be designed and operate, and how these correlate to proportionately managing risks identified across all areas of Council's activities. This is necessary in reaching a sufficient professional standard, supported with professional training, audit qualifications, and Continuous Professional Development.
- 2.5 We have ofcourse seen the Council's exposure to risk change significantly from 2017 since it acquired a 1m Property portfolio and ambitious property development programme. These areas require ever increased focus and audit insight at an appropriate (not junior) level of resource.
- 2.6 There is continued emphasis from professional audit bodies on aligning audit work to areas of greater organisational risk, thereby adding enhanced value. Internal audit is no longer regarded as a service that focuses solely on checking routine processes and procedure, but rather our risk and assurance work covers a broad spectrum beyond financial systems. This includes significant risks that impact Spelthorne's corporate priorities and objectives, whilst also ensuring proportionate focus is given to emerging and evolving risks, new projects, systems and processes, and key legislative changes. The growing prevalence of new initiatives facing the Council has also meant that the team are being increasingly called upon for ad hoc advice and support. Consequently and as a combination of all these factors, the service need for Auditors to predominantly undertake more routine transaction based work of traditional audit areas has become less relevant, with a shifted transition to focus on wider topical risk areas and strategic issues.
- 2.7 Paragraphs 2.3 to 2.6 above illustrate the rationale for not pursuing an audit apprenticeship officer, as it is not currently considered a feasible option going forward.

2.8 As highlighted earlier in the summary at section one, Appendix A to this report sets out planned workstreams/anticipated service delivery based on maintaining the current level of audit resource operating at 1.75 FTE plus approx. 30 audit contractor days. To summarise, eighteen areas on the audit plan assigned a priority A plus two areas assigned a priority B can be delivered within existing resources, totalling twenty areas. Four further audit assignments on the audit plan assigned a priority B cannot be delivered within existing resource levels. One further area on the plan assigned a priority B (some aspects of Continuous Improvement work at category 24) cannot be delivered within existing resource levels. Regarding planned advisory and support work at category 21, this was originally assigned a non-specific priority range of A to B, and some elements of category 21 cannot be delivered with current resources. In total, six areas cannot be delivered from current resources (approx. 70 days). Further details regarding the changes made to the audit plan are provided in the following sections.

2.9 One audit area (Blue Box software – Housing rental income side – Priority A ) has been directly replaced with a new audit of Procurement – also ranked as Priority A, as in light of recent audit recommendations raised regarding Blue Box (commercial rental income) and extending use of Integra to raise rental income, it is envisaged that recommendations would be duplicated, so it is not considered to be an efficient use of audit time in reviewing this area at this point. The plan makes reference to where audit assignments have been removed (background highlighted in red) on the basis that they are not deliverable within current resources, as well as areas where reduced time budgets are assigned, resulting in lesser audit coverage and scope. Four audit assignments on the original plan presented to the Audit Committee in March have been fully removed (note categories 4,10,13,17 at Appendix 1). One of these audits – Blue Box, has been directly replaced with Procurement. In addition, a review of the Business Improvement District (BID) under the broader Business Rates assignment has been removed. Data analytics work under continuous improvement audit initiatives has been excluded. Planned advisory work areas have been significantly reduced excluding some major projects for the authority. Whilst most of these work areas were assigned a priority B on the original plan presented to Audit Committee in March, they are nonetheless indicative of business need (as ascertained from the audit needs assessment) in the provision of assurance and audit insight, and they are highlighted below in order of priority:

Priority 1 – Advisory, support and monitoring work on major projects and initiatives (Leisure Centre/Centros/Government and Waste Strategy) – 23 days

Priority 2 – Continuous Improvement Work/keeping abreast with modern audit practices – exploring and applying data analytics to provide extended and real time assurance – 20 days

Priority 3 – Treasury Management - Audit assignment (Light Touch) – 5 days

Priority 4 – Communications – Audit assignment 5 days

Priority 5 – Business Improvement District –Audit assignment (Light Touch) - 3 days

Priority 6 – Succession Planning –Audit assignment - 6 days

Audit management direction/insight/input approx. 7 days.

Total Days estimated 70 days.

- 2.10 It is anticipated that further discussions on this may be useful to take place with Members of the Audit Committee, to ascertain proposed next steps. It should also be acknowledged that the priorities for the service will continue to evolve every year in line with the audit needs assessment and other service priorities.
- 2.11 Further to discussions with Management Team, the steer is to explore the optimum approach to utilising resource in considering the need for increased audit resource. The following approaches are being reviewed, with some early insight from the Audit Manager conveyed, including associated risk implications, opportunities, and considerations for each option proposed. Further to discussions with management team, we await further input and direction from the new permanent Group Head of Corporate Governance, taking up post from mid-September. On this basis, the Internal Audit Manager has not put forward any preferred options at this stage under section 3 of this report.

(i)**Recruiting additional experienced internal audit resource**, subject to approval of a growth bid, which may be presented as part of the annual 2023/24 budget process. This option whether permanent or a fixed term would ensure more sustained support for the team and the authority, as well as building in improved resilience. This will consequently increase the level of independent assurance provision and support to the Council, including areas presenting greater risk and challenge. There are however wider financial and budgetary implications from additional staff establishment costs at a time when the Council is under significant financial pressure, with a moratorium on all establishment growth for 2023/24, unless the growth item is externally funded or meets a statutory requirement. Added to this, the recruitment challenges we are facing in a competitive marketplace, and successfully attracting and appointing an experienced audit resource, are all limiting factors to consider in reviewing this option.

(ii)**Externally commissioned contractor audit resource** – increasing the level of contractor audit days procured (current budget allowance can source approx. 30 days). This will enable additional prioritised audit assignments to be undertaken, thereby increasing the level of independent assurance provision to the Council. This offers a more focussed approach to utilising resource as they are contracted specifically for direct audit days to undertake audit assignments. They may also have subject matter expertise across certain areas to enhance value added. It will not however offer a permanent or more stable presence in the audit team, neither will it provide support across any of the several other workstreams delivered by the Internal Audit Service. The level of background knowledge held by a Contractor regarding Spelthorne's systems/local issues is naturally lower, although on the contrary a competent Contractor/Service Provider can provide new insight and add value based on their wider exposure to working across several organisations. The Internal Audit Manager has developed good professional working relationships with TIAA through regular communications on assignments, and their work has been of a good quality. They are receptive to working within the overall direction/scope/objectives/insight set out by the Audit Manager. The anticipated financial cost (estimate only) of using audit contractor resource to deliver all of the priority B workstreams relating to 2022/23 as set out under

para 2.8 is in the region of £28,700 to £33,600, based on procuring 70 days. Day rates for experienced Contract Auditors range from approx. £400 to £480 per day, with differentiation between generalist and specialist audit contractors.

(iii) **Consider shared arrangements with other local authorities.** Approx. one third of local authorities in Surrey, have an in-house audit presence (4 out of 12). Of the three other local authorities that do (Elmbridge, Surrey Heath and Waverley), at least two of these use contracted/agency audit resource to supplement their in-house resources. In the past, Spelthorne had a temporary arrangement with Surrey County Council in procuring audit agency resource, but that came to an end in 2017 when they were no longer able to accommodate the additional work. The feasibility of shared arrangements with a view to building more resilience can be explored, and it should be noted that the previous audit partnership arrangement with Elmbridge came to an end when the former Head of Audit took early retirement in 2015, as reduced management resource led to this no longer being a feasible option for either party at the time. Internal audit provision/arrangements for authorities across Surrey are summarised in the table below:

Local Authority	Internal Audit Provision /Arrangements	Consortium referenced
Spelthorne	In-house supported with small level of co-sourcing by externally commissioning resource	
Elmbridge	In-house supported with agency resource	
Waverley	In-house management plus externally commissioned audit contractor resource from Southern Internal Audit Partnership	
Surrey Heath	In-house .	
Runnymede	Outsourced arrangement – TIIA	
Reigate	Outsourced arrangement - Southern Internal Audit Partnership	Consortium
Tandridge	Outsourced arrangement	Consortium
Mole Valley	Outsourced arrangement	Consortium
Epsom and Ewell	Outsourced arrangement	Consortium
Woking	Outsourced arrangement	
Guildford	Outsourced arrangement	
Surrey CC	Orbis local authority audit partnership between East Sussex, Surrey County Council and Brighton and Hove Council	

### **3. Options analysis and proposal**

- 3.1 Consider the prioritised areas of work for 2022/23 that are not deliverable under current resource levels and agree next steps, with proposed options below:
- 3.2 Option 1 - Do nothing and retain the existing level of audit resource throughout 2022/23. The implications include maintaining the current level of assurance provision to the Council, and not fully addressing prioritised audit/business needs identified as part of the audit planning process for 22/23 (including all priority B workstreams). It also does not address overstretched capacity levels within the team. Or ,
- 3.3 Option 2 – Review and explore alternative approaches to utilising resource in considering the need for increased audit resource, within 2022/23 and beyond. Consider any additional input and direction from the permanent Group head of Corporate Governance once she commences post, with a view to addressing both business and service needs.

### **4. Financial implications**

- 4.1 It is acknowledged that due to the significant financial pressures facing the Council, there is a moratorium on staff establishment growth for the 2023/24 budget process. Given the current financial environment, several approaches in deploying any increased resource are being considered in addition to permanent resource, including appointing contractor resource as needed, fixed term contracts for establishment resource, and exploring shared arrangements with other authorities. The financial implications are outlined earlier under section 2.10.
- 4.2 Externally commissioned resource (current) to support delivery of the 2022/23 audit plan is approx. 30 Days and will be funded from the audit contractor budget of £12,500. Contractor resource is still necessary to provide specialist support in areas such as IT auditing, as well other areas in supporting planned service delivery. It should be noted that this contractor budget has been reduced previously with effect 2022/23 by approx. £10,000 due to the need to generate savings.
- 4.3 Day rates for audit contractors are currently in the region of £400 to £480 per day, with differentiation between generalist and specialist audit contractors.

### **5. Risk considerations**

- 5.1 The Internal Audit Annual Plan is risk-based and therefore already considers a diverse range of areas of medium to higher risk for inclusion in the plan, ensuring that finite resources are targeted efficiently.
- 5.2 As previously reported, the Internal Audit Annual Plan includes reviews of functions and systems that are financially material and therefore represent greater risk to the authority. Issues presenting adverse financial consequences or threats to the Council's financial position apply to a range of workstreams on the plan.

5.3 Risk implications associated with current levels of audit operating resource are already referred to under earlier sections. The range of approaches being explored as set out in this report aim to alleviate some of these risks, and there are wider risk implications and considerations associated with all of these options, as highlighted earlier.

## **6. Legal considerations**

6.1 Reference is made earlier regarding the need to fulfil statutory and professional requirements in preparing a risk based internal audit plan for approval by the Audit Committee (under PSIAS).

6.2 Where appropriate legal matters are considered during the course of audit and assurance work, such as compliance with regulations.

## **7. Other considerations**

7.1 There are none.

## **8. Equality and Diversity**

8.1 There are no implications to report. A cross cutting review of Equality and Diversity is not part of the proposed audit plan for 2022/23 but will be considered at some future point.

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

9.1 Climate Change risks and mitigation measures are periodically monitored by the Internal Audit Manager as part of reporting on the Corporate Risk Register.

## **10. Timetable for implementation**

10.1 The Internal Audit Annual Plan sets out work to be undertaken by the Internal Audit team during the 2022/23 financial year. Proposed timings for work areas to ensure optimal value to the service area and the authority, previously agreed with service leads, are set out in the plan.

## **11. Contact**

11.1 Punita Talwar, Internal Audit Manager. [P.Talwar@spelthorne.gov.uk](mailto:P.Talwar@spelthorne.gov.uk)

**Background papers:** There are none.

## **Appendices:**

Appendix A – Annual Internal Audit Plan 2022/23 (Based on current resource levels)