

## **Audit Committee Briefing Report Draft Internal Audit Plan and Charter 2020-21**

### **1. Background**

1. The Terms of Reference for the Audit Committee sets out its responsibility:
  - To approve the Internal Audit Charter
  - To approve the risk-based Internal Audit Plan, containing internal audit's resource requirements, the approach to using other sources of assurances and any work required to place reliance upon those other sources.
2. This briefing paper has been prepared to enable the Audit Committee to consider and comment on the Draft Internal Audit Plan and Charter for 2020/21, outside of the formal Audit Committee meeting scheduled for 24 March 2020, which has been cancelled in consideration of business necessity and the COVID-19 risk.
3. The Audit Committee's function is primarily of an advisory nature, but it has a responsibility to review its Terms of Reference annually and, under the PSIAS Standard 1110 (Organisational Independence), is required to approve the Internal Audit Charter and the risk-based Internal Audit Plan. Formal approval of both the Audit Charter and the Audit Plan will take place in the next Audit Committee Meeting.
4. In the meantime, the Draft Audit Plan and Charter 2020/21 are attached to this briefing. Members are asked to consider, comment, and request any further information or details from the Audit Manager as necessary, until the period ending Friday 3 April 2020. The final section of this report (Actions) outlines the approach to accounting for Audit Committee comments, and achieving endorsement from the Senior Management Team ahead of formal Audit Committee approval in due course.
5. Members considered the Draft Audit Charter, accompanied by the Audit Committee Terms of Reference in the meeting on 21 January 2020. There have been no subsequent changes to the Charter and Terms of Reference.
6. In its January meeting, Audit Committee also considered the summary Audit Plan, which has been further developed through discussions with senior management in directorates and the application of a risk-based methodology, to identify the planned activities of Internal Audit for 2020/21.
7. Also appended to this briefing is the Audit Strategy, which sets out the strategic intentions of the Internal Audit Service for planning and delivery in accordance with PSIAS Standard 2010 (Planning).

### **2. Issues**

8. At the time of concluding preparation of the Draft Audit Plan 2020/21, it is recognised that the capacity of the audit team, and access to audit clients will be

impacted by future events. The Audit Plan has been prepared applying a standard proportion of audit resources to allotable audit days, under normal conditions.

9. Whilst the basis for preparing the Plan has remained consistent with previous years, as information becomes available on the impact on the team's capacity, a realistic target will be set for the proportion of the Audit Plan 2020/21 to be delivered. The target level of delivery of the Plan and the approach to assigning audits for delivery in 2020/21 will be communicated in the next Audit Committee meeting. Throughout the year, there will be ongoing monitoring of delivery of the Audit Plan, levels of assurance and risk by audit management. Adjustments will be made, communicated and agreed as appropriate with the Audit Committee.

### **Audit Strategy**

10. The Internal Audit Strategy is designed to contain the strategic intentions and approach of the audit service (**Annex 1**). It aims to provide a focus for the Audit Management Team in planning and delivering audit engagements, for auditors when performing individual audit engagements, and to communicate the objectives of the Internal Audit service, beyond the definitions of roles, responsibilities and authority within the Audit Charter. The Audit Strategy was considered by Audit Committee in its meeting of 25 June 2019.
11. There are no proposed changes to the Audit Strategy for 2020/21.

### **Audit Charter 2020/21**

12. The Internal Audit Charter set out in **Annex 2** is a formal document which establishes the Internal Audit Service's position within the organisation and the Audit Manager's functional reporting relationship with the Audit Committee. It also authorises audit access to records, personnel and physical properties relevant to the performance of engagements, and defines the scope of internal audit activities. Accompanying the Charter is the suggested terms of reference for Audit Committee.
13. The Audit Committee considered the Draft Audit Charter 2020/21 in its meeting on 21 January 2020, which contained minor proposed updates relative to the Audit Charter 2019/20. There are no further proposed changes following this meeting.

### **Audit Plan 2020/21**

14. The approach to developing the Audit Plan was outlined to the Audit Committee in its report of 21 January 2020, at which time a summary plan and indicative allocation of audit time was provided. The Audit Plan included in **Annex 3** has taken into account a range of management and independent assurances to develop a plan of audits on a risk-based prioritisation for 2020/21.
15. Since the Audit Committee Meeting on 21 January 2020, work has been undertaken to further develop the Plan and identify the audits that will be undertaken, with the engagement of senior management. This has involved an assurance mapping process in respect of fundamental systems and core areas of governance, for which a summary is included in **Annex 4**. The same process

applies for operational audits, but this area needs to be more dynamic and responsive to the ongoing relationship management approach with senior officers of the Council. The dynamic nature of audit planning is summarised in **Annex 5**.

16. In respect of the dynamic nature of Internal Audit, Members will note that 100 days have been set aside for important service / process consultancy, at a time when the organisation has needed to invoke crisis management arrangements in order to continue to meet and deliver essential front line and back office services. Over the coming weeks and months, Internal Audit will be required to support management in working through process changes, as the workforce responds and adapts to critical service requirements, with capacity constraints. The time allocation enables Internal Audit to provide active advice and guidance across the Council, as and when required.

17. The overall approach to developing the audit plan is designed to be risk-based and co-ordinated in application of the “three lines of defence” model. The process involves the application of three basic review principles as follows:

**(a) Informed Inherent Risk** - The starting point is the development of an inherent audit need / risk score as a product of the nature of the potential audit area, and the results of Senior Management Assurance Statement (SMAS) responses from Directors. There are three broad audit categories, which are audited with an inherent frequency in the following priority order from highest to lowest (1) Fundamental systems, (2) Governance functions (e.g. Risk Management, Health and Safety, Performance Management etc.) and (3) Operational audits, such as a school or standard system audit.

**(b) Coordination and Reliance** - After considering the inherent need for an audit, the audit plan is refined to account for the level of further sources of assurance and indicators of risk, in considering and accounting for the:

- Information on risk registers;
- Planned and programmed projects, scrutiny and management activities;
- Existing levels of internal audit assurance; and
- Planned and actual work and findings from wider audit, regulatory and consultancy activities.

**(c) Extensive and Appropriate Audit Coverage** - In consideration of the above two stages, audits will be programmed and typically delivered through a combination of Control Risk Self Assessment (CRSA), thematic and full audit engagements. As the information sources are being developed through relationship management mechanisms in directorates, there will be a greater scope to progress the approach to co-ordination and reliance in accordance with PSIAS Standard 2050.

18. Members will be aware that the internal audit resources are allocated over a number of broad categories of work:

- (a) Fundamental audits
- (b) Corporate governance
- (c) Other assurance
- (d) Service specific.

19. Fundamental Audits relate to key financial systems, to provide the Section 151 Officer with assurance that appropriate controls are in place. The Audit Plan has been developed on the continued basis, as communicated with Audit Committee and the Council's external auditor that fundamental systems are to be audited generally on a biennial basis. However, if there are any major system or operational changes during the year when it is planned not to undertake a full audit, an audit of that system will be added to the audit plan for that year (and the change reported to a meeting of this Committee). Accordingly, it is proposed that central audits of NNDR, Treasury Management, Housing Rents and Main Accounting are not undertaken in 2020/21, as recent audits considered systems as well controlled. The audits of 'income and debtors' and 'asset management' have been arranged through a thematic audit approach in each directorate, of which most directorate asset management audits will conclude in 2019/20, and the income and debtors audits are planned within directorate audit days for 2020/21.
20. The section of the plan related to Corporate Governance includes a range of audits related to central governance, with Other Assurance covering wider matters of governance and assurance.
21. A large proportion of days has, as in previous years, been allocated to Service Specific audits. As in 2019/20, the plan proposes to allocate a significant number of days within the directorates to the audit of key themes. The key themes for 2020/21 reflect the areas that risk assurance planning has identified as areas for attention due to the level of risk and are:
  - (a) Commissioning and Procurement *(carried forward from 2019/20)*
  - (b) Income and Debtors *(carried forward from 2019/20)*
  - (c) Performance Management
  - (d) Information Management
  - (e) Pre-contract Assurance.
22. Following on from the school thematic audits of ICT governance, income collection and counter-fraud in 2019/20, a full CRSA audit exercise is planned to be completed in all schools in 2020/21, followed by in-year testing. Given recent school closures, Internal Audit will continue to monitor the situation, and will consider whether these audits can commence later in the financial year.
23. The plan allows some flexibility to undertake unplanned work. Any such assignments will be reported to the Audit Committee as part of the regular progress updates.

### **Conclusion of Audit Plan 2019-20**

24. To further inform the Audit Committee in considering the Audit Plan 2020/21, **Annex 6** contains the current position in delivering the Audit Plan 2019/20. Against each audit, the position as at 29 February 2020 is recorded with an outline of those audits targeted at that time for delivery by the financial year-end. Any targeted audit engagements not delivered by the year-end will conclude in 2020/21. A comment is also included, to outline how any audits not delivered in 2019/20 will be treated after the year-end.

### **3. Actions**

25. Members are asked to consider, comment, and request any further information or details from the Audit Manager, as necessary until the period ending Friday 3 April 2020, in respect of the:

- Internal Audit Charter and Audit Committee Terms of Reference, 2020/21
- Internal Audit Plan, 2020/21

26. The Audit Manager will consider and respond to all requests and, upon request, a mechanism can be set up for Members to participate and raise comment with the Audit Manager collectively through a conference call.

27. The Audit Manager will provide Members with a final iteration of the above documents following this exercise. The Chief Executive will be asked to endorse the Internal Audit Charter and Internal Audit Plan 2020/21 on behalf of SMT, ahead of Committee approval in the next formal Audit Committee Meeting.

**Chris Pyke**  
**Audit Manager**  
**23 March 2020**

**Annex 1:** Audit Strategy

**Annex 2:** Internal Audit Charter 2020/21

**Annex 3:** Internal Audit Plan 2020/21

**Annex 4:** Summary Assurance Map

**Annex 5:** Cyclical Audit Planning

**Annex 6:** Conclusion of Audit Plan 2019/21