

Agenda Item 8



Three Rivers District Council
Audit Committee
23 March 2021

2021/22 Internal Audit Plan Report

Recommendation

Members are recommended to approve the proposed Three Rivers District Council and Shared Services 2021/22 Internal Audit Plans

Contents

1. Introduction and Background

2. Audit Planning Process

- 2.1 Planning Principles
- 2.2 Approach to Planning
- 2.4 Planning Context
- 2.8 Internal Audit Plan 2021/22

3. Performance Management

- 3.1 Update Reporting
- 3.2 Performance Indicators

Appendices

- A Proposed Three Rivers District Council 2021/22 Audit Plan
 - B Proposed Three Rivers District Council & Watford Borough Council Shared Services 2021/22 Audit Plan
 - C Audit Start Dates Agreed with Management
-

1. Introduction and Background

- 1.1 Internal Audit is an independent and objective assurance and consulting activity designed to add value and improve the organisations 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. The role of internal audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively. (Chartered Institute of Internal Auditors – Internal audit definition and purpose)
- 1.2 The Council's Internal Audit Plan sets out the programme of internal audit work for the year ahead, and forms part of the Council's wider assurance framework. It supports the requirement to produce an audit opinion on the overall internal control environment of the Council, as well as a judgement on the robustness of risk management and governance arrangements, contained in the Head of Assurance annual report.
- 1.3 The Shared Internal Audit Service's (SIAS) Audit Charter which was presented to the July 2020 meeting of this Committee shows how the Council and SIAS work together to provide a modern and effective internal audit service. This approach complies with the requirements of the United Kingdom Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013 and revised on 1 April 2017. An updated version of the SIAS Audit Charter will be brought to the first meeting of Audit Committee in the 2021 civic year for Member approval.
- 1.4 The PSIAS require that the audit plan incorporates or is linked to a strategic or high-level statement which:
- Outlines how the service will be developed in accordance with the internal audit charter,
 - Details how the internal audit plan will be delivered,
 - Evidences how the service links to organisational objectives and priorities.
- 1.5 Section 2 of this report details how SIAS complies with this requirement.

2. Audit Planning Process

Planning Principles

2.1 SIAS audit planning is underpinned by the following principles:

- a) Focus of assurance effort on the Council's key issues, obligations, outcomes and objectives, critical business processes and projects and principal risks. This approach ensures coverage of both strategic and key operational issues.
- b) Maintenance of an up-to-date awareness of the impact of the external and internal environment on the Council's control arrangements.
- c) Use of a risk assessment methodology to determine priorities for audit coverage based, as far as possible, on management's view of risk.
- d) Dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs. This approach includes recognition that in a resource-constrained environment, all needs cannot be met.
- e) Identification of responsibilities where services are delivered in partnership.
- f) In-built flexibility to ensure that new risks and issues are accommodated as they emerge.
- g) Capacity to deliver key commitments including governance work.
- h) Capacity to respond to management requests for assistance with special investigations, consultancy and other forms of advice.

Approach to Planning

- 2.2 In order to comply with the requirements of the PSIAS, SIAS applies a methodology at all its partners which contains the following elements:



- 2.3 The approach to audit planning for 2021/22 has been characterised by:

- a) Detailed discussions with senior managers and other key officers within the Council to confirm auditable areas and elicit high level detail of the scope of audits. This process incorporates the following four steps to assist in the later prioritisation of projects:

Risk Assessment

Senior Managers and SIAS agree the level of risk associated with an identified auditable area and prioritise this (high, medium and low). All auditable areas prioritised as 'high risk' have been included in the draft annual audit plan.

Other sources of Assurance

Senior Managers are asked whether assurance in the auditable area is obtained from other assurance providers e.g. External Audit or the Health and Safety Executive. This approach ensures that provision of assurance is not duplicated.

Significance

Senior Managers assess how significant the auditable area is in terms of the achievement of corporate or service objectives and priorities.

Timings

Senior Managers identify when an audit should be undertaken to add most value.

- b) Proposed plans are based on the information obtained from the planning meetings. Details of audits that have not been included in the proposed draft plan as a result of resource limitations are reported to senior management and the audit committee.
- c) The proposed 2021/22 plans for all SIAS partner councils are then scrutinised and cross-partner audits highlighted.

This approach ensures that our work gives assurance on what is important, focussing on those areas of highest risk, and supports the Council in achieving its objectives.

The Planning Context

2.4 The context within which local authorities provide their services remains challenging and the COVID-19 pandemic continues to impact on the short to medium term priorities and environment for the Council, including:

- A fast-changing risk environment, influenced by both the impacts of the pandemic on public health, the national and local economy and Social Care and Health Services.
- Resource pressures, both in terms of staff capacity and finances, thereby resulting in conflicting priorities for the organisation to manage.
- Maintaining staff health and well-being during the significant shift in the ways of working and the need to ensure the safety of staff continuing to undertake front-line duties.
- Managing multiple new grant funding streams, as well as ensuring effective use of public money in relation to areas such as a more socially distanced approach to contract monitoring.
- Adapting and maintaining governance and internal control structures to reflect different ways of working.

2.5 Other key challenges faced by the Council include:

- The EU Transition continues to provide uncertainty and risks in relation to delivering key services, with areas such as workforce planning, future legislative changes and cost and supply pressures for goods and equipment being key considerations for service and business continuity planning during the year ahead.
- Austerity and the rising demand for services have driven local authorities to consider different ways of working. One option to help local authorities achieve financial sustainability is to continue their

drive to be more commercial. As a result, through a combination of the 2011 Localism Act (which gave councils new powers to trade) and the decline in the popularity of outsourcing, there has been a surge in the creation of local authority trading companies (LATCs). Investment companies and those created for the delivery of a wide range of services have become more prevalent.

- Digital transformation continues to offer opportunities along with significant risks. The innovative use of technology is helping to reduce costs, as well as be more efficient and transparent. However, factors such as security, privacy, ethical and regulatory compliance are a recognised concern.
- The declaration of a Climate Emergency has required Local Authorities to commit to developing an ambitious programme to improve sustainability in their local areas.

2.6 The resultant efficiency and transformation programme that councils are in the process of implementing and developing continues to have the potential for profoundly altering each organisation's nature. Such developments are accompanied by potentially significant governance, risk management and internal control change.

2.7 The challenge of giving value in this context, means that Internal Audit needs to:

- Meet its core responsibilities, which are to provide appropriate assurance to Members and senior management on the effectiveness of governance, risk management and control arrangements in delivering the achievement of Council objectives.
- Identify and focus its effort on areas of significance and risk, assisting the organisation in managing change effectively, and ensuring that core controls remain effective.
- Give assurance which covers the control environment in relation to new developments, using leading edge audit approaches such as use of technology to achieve 'whole population testing' and new insights over sampling or 'continuous assurance' where appropriate.
- Retain flexibility in the internal audit plan and ensure the plan remains current and relevant as the financial year progresses, this is particularly key given the current challenges and risks of COVID-19 and the impact this has had on internal audit activity.

Internal Audit Plan 2021/22

2.8 The draft 2021/22 audit plans are included at Appendix A and B and contain a high-level proposed outline scope for each audit; Appendix C

details the agreed start months. The total number of days purchased in 2021/22 has been reduced from 402 to 362 days across the Three Rivers District Council, Shared Services and Watford Borough Council audit plans. The table below shows the estimated allocation of the total annual number of purchased audit days for the year for the Three Rivers and Shared Services Plans.

	TRDC	Shared Services	Total
Key Financial Systems	0	65	65
Operational audits	53	10	63
Procurement / Contract Management	20	0	20
Shared Learning / Joint Reviews	4	0	4
Counter Fraud	0	0	0
Risk & Governance	0	0	0
IT Audits	0	15	15
To Be Allocated	0	0	0
Follow Ups	8	0	8
Strategic Support*	32	0	32
2020/21 Projects Requiring Completion	6	10	16
Total audit days 2021/22	123	100	223

* This covers supporting the Audit Committee, monitoring, client liaison and audit planning for 2022/23.

- 2.9 In order to retain flexibility in the audit plan and to ensure SIAS has the ability to respond to any changes in the environment at the Council, further planning discussions will be held with Senior Managers prior to the September 2021 Audit Committee. These discussions will allow SIAS and Senior Managers to undertake a further risk assessment on the planned projects during the final two quarters of the year as well as discussing any changes in risk exposure, emerging or new areas of risk or project work and any amendments to governance arrangements. The results of these discussions will be brought to the Audit Committee in September to approve any changes. As a result, no contingency has been included in this year's annual audit plan.
- 2.10 In agreement with management, the key financials systems audits will be scoped when these are scheduled. This will provide the opportunity to respond to service priorities (for example grant administration in Revenues and Benefits) and to change the focus of this work by targeting fewer areas of coverage but in more detail. As a result, the time is shown in the Shared Services Plan as two blocks (Revenues

and Benefits / Finance) rather than a series of specific audits at this stage.

- 2.11 Members will note the inclusion of a provision for the completion of projects that relate to 2020/21. The structure of Internal Audit's programme of work is such that full completion of every aspect of the work in an annual plan is not always possible; especially given the high dependence on client officers during a period where there are competing draws on their time e.g. year end closure procedures.
- 2.12 The nature of assurance work is such that enough activity must have been completed in the financial year, for the Head of Assurance to give an overall opinion on the Authority's internal control environment. In general, the tasks associated with the total completion of the plan, which includes the finalisation of all reports and negotiation of the appropriate level of agreed mitigations, is not something that adversely affects delivery of the overall opinion. The impact of any outstanding work is monitored closely during the final quarter by SIAS in conjunction with the Section 151 Officer.

3. Performance Management

Update Reporting

- 3.1 The work of Internal Audit is required to be reported to a Member Body so that Three Rivers District Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan. Progress against the agreed plan for 2021/22 and any proposed changes will be reported to this Committee four times in 2021/22. The implementation of agreed audit recommendations will be reported to Audit Committee as part of the update reporting process.

Performance Indicators

- 3.2 Annual performance indicators are reviewed annually by the SIAS Board and details of the 2021/22 targets are shown below. Actual performance against target will be included in the update reports to this Committee.

Performance Indicator	Performance Target
1. Planned Days percentage of actual billable days against planned chargeable days completed.	95%

<p>2. Planned Projects percentage of actual completed projects to draft report stage against planned completed projects. Note: based on the judgement of the SIAS management team and representing the best estimate as to a reasonable expectation of progress on the audit plan.</p>	<p>95%</p>
<p>3. Client Satisfaction percentage of client satisfaction questionnaires returned at 'satisfactory' level.</p>	<p>100%</p>
<p>4. Number of High Priority Audit Recommendations agreed</p>	<p>95%</p>
<p>5. Annual Plan</p>	<p>Presented to the March meeting of each Audit Committee.</p>
<p>6. Head of Assurance's Annual Report</p>	<p>Presented to the first meeting of each Audit Committee in the new financial year.</p>

Three Rivers District Council
Audit Committee
23 March 2021

Three Rivers District Council 2021/22 Draft Internal Audit Plan

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
KEY FINANCIAL SYSTEMS			
	See Shared Services Audit Plan		
OPERATIONAL AUDITS			
Section 106	To provide assurance that processes and controls are effective over the determination and receipt of contributions due and spend arrangements in place. Scope to be agreed at the time of the audit.	8	4
Equalities & Diversity	To provide assurance over the application of the Council's statutory duty. Specific areas of focus to be determined when the audit is carried out.	7	3
Data Protection	To provide assurance that the Council is compliant with Data Protection legislation. Specific areas of focus to be determined when the audit is carried out.	8	2
Private Sector Rented Accommodation	To provide assurance over the incentive scheme for landlords to encourage private sector housing to be made available.	7	1

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
Complaints Handling	To provide assurance over the recording, treatment and reporting of complaints received by the Council.	8	4
FM Buildings Compliance	Review of compliance with statutory requirements for the Council's operational buildings. This will include asbestos and legionella.	8	4
DFG Grant Certification	To provide internal audit sign-off of the annual DFG grant declaration through the validation of transactions included in the return.	2	2
Arts Council Culture Recovery Fund Grant	To provide internal audit sign-off of the Arts Council Culture Recovery Fund Grant declaration through the validation of transactions included in the return.	5	2
PROCUREMENT			
Leisure Contract	Review of the procurement exercise leading to the appointment of SLM as the Council's leisure contractor, including sharing of lessons learnt and areas of good practice. Review to also include ongoing management of the contract.	12	1
Contract Spend	Review of the Council's arrangements for monitoring contract spend and maintaining the contract register.	8	1

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
SHARED LEARNING / JOINT REVIEWS			
Shared Learning / Joint Reviews	Shared Learning publications providing opportunities for shared learning across the partnership. Joint reviews as determined by the SIAS Board.	4	Through the year
RISK MANAGEMENT AND GOVERNANCE			
	No audits identified for 2021/22		
IT AUDITS			
	See Shared Services Audit Plan.		
TO BE ALLOCATED (CONTINGENCY)			
To Be Allocated	See Shared Services Audit Plan.		

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
FOLLOW-UP OF AUDIT RECOMMENDATIONS			
Follow-up of audit recommendations	Obtaining quarterly updates on the status of internal audit recommendations from action owners and reporting outcomes to Audit Committee.	8	Quarterly
STRATEGIC SUPPORT			
Head of Internal Audit Opinion 2020/21	To prepare and agree the Head of Internal Audit Opinion for 2020/21.	3	1
Audit Committee	To provide services linked to the preparation of Audit Committee reports and presentation of reports / participation at Audit Committee.	9	Quarterly
Monitoring and Client Meetings	To produce and monitor performance and billing information, work allocation and scheduling, and to meet with the Council's Audit Champion and other key officers.	9	Through year
2022/23 Audit Planning	To provide services in relation to preparation and agreement of the 2022/23 Audit Plan in conjunction with senior officers of the Council.	5	4

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Target Quarter
SIAS Development	Included to reflect the Council's contribution (as with all partners) to developing the partnership.	3	1
Annual Governance Statement	To assist the Council in the preparation of the Annual Governance Statement for 2020/21.	3	1
2020/21 PROJECTS REQUIRING COMPLETION			
2020/21 Projects to be completed	Additional time, if required for the completion of 2020/21 audit work carried forward into the 2021/22 financial year.	6	1
TOTAL AUDIT PLAN DAYS		123	

Three Rivers District Council
Audit Committee
23 March 2021

Three Rivers District Council and Watford Borough Council
Shared Services 2021/22 Draft Internal Audit Plan

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
KEY FINANCIAL SYSTEMS			
Revenues & Benefits	Review of Council Tax, NDR, Housing Benefits and Sundry Debtors systems to confirm that controls are adequate and effective. Scope to be agreed with management at the time and may involve a detailed review of a restricted number of areas to provide additional assurance over those aspects of these systems. Testing will cover the 2020/21 financial year for both Councils.	30	2/3
Finance	Review of Finance systems to confirm that controls are adequate and are effective. Scope to be agreed with management at the time and may involve a detailed review of a restricted number of areas to provide additional assurance over those aspects of these systems. Testing will cover the 2020/21 financial year for both Councils.	25	3/4
Payroll	Review of the Payroll system to confirm that controls are adequate and effective. Testing will cover 2021/22 and include starters and leavers, additional payments, statutory deductions and payroll period end checks.	10	3
OPERATIONAL AUDITS			
Payroll System	Review of the implementation of the new payroll system.	10	1

Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days	Estimated Target Quarter
IT AUDITS			
Cyber Security	To provide assurance that cyber security strategies and arrangements are appropriately designed and operated to manage the risk of a cyber-attack.	15	4
2020/21 PROJECTS REQUIRING COMPLETION			
Outstanding 2020/21 audits	Time for completion of 2020/21 audits carried forward into 2021/22 (unused time will be reallocated).	10	1
TOTAL AUDIT PLAN DAYS – SHARED SERVICES PLAN		100	

Apr	May	June	July	August	September
	New Payroll System	Contract Spend		Data Protection	Revenues and Benefits Audits
	Private Sector Rented Accommodation	Leisure Contract			DFG Grant Certification
					Arts Council Culture Recovery Fund Grant Certification

October	November	December	January	February	March
Finance Audits	Payroll	Cyber Security	FM Building Compliance	Complaints Handling	
	Equalities & Diversity		Section 106		