

## Internal Audit Plan 2020 21

### Report to Audit and Standards Committee

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|  <p><b>Burnley</b><br/>.gov.uk</p> | <b>DATE</b>          | <b>23/09/2020</b>                           |
|   | <b>PORTFOLIO</b>     | <b>Resources and Performance Management</b> |
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#### **PURPOSE**

1. To inform on the audit planning process and seek approval from members on the proposed Internal Audit plan for 2020-21 and the Internal Audit Charter and Strategy 2020.

#### **RECOMMENDATION**

2. Members consider the report and provides comment on any changes for approval of the proposed Internal Audit Plan and Internal Audit Charter and Strategy.

#### **REASONS FOR RECOMMENDATION**

3. Audit and Standards Committee are 'the Board' in respect of the Public Sector Internal Audit Standards (PSIAS). As part of this role, they should consider approval of a risk-based internal audit plan.
4. To ensure that the service is delivered effectively in accordance with proper practices.
5. To ensure delivery of an audit opinion for 2020-21.

#### **SUMMARY OF KEY POINTS**

##### **Internal Audit Plan 2020/21 (Appendix 1)**

6. Audit is required to have a risk-based audit plan for a period of no longer than one year. We have consulted management to establish the auditable activities for 2020/21. Members of the audit team liaised with each head of service to discuss key areas of risk and potential audits within their area of activity.
7. The audit universe, which contains all elements identified for audit, was subsequently updated with the new risk scores following these discussions. The risk scoring matrix contains a number of factors such as size, volume and value of transactions, levels of control and time since the last audit.

|                    |              |
|--------------------|--------------|
| <b>ITEM<br/>NO</b> | [AgendaItem] |
|--------------------|--------------|

8. The proposed Internal Audit Plan 2020/21 is based on the result of this risk assessment exercise, whilst also maintaining audit coverage across all services of the Council. This does not mean that audit has been operating without a plan until now. The audit team have been largely supporting the Council's business continuity response to the Coronavirus pandemic and the audits that have been delivered so far are those that were carried over from the 2019/20 plan.
9. Ongoing support of the business continuity arrangements have meant a significant reduction in available audit days by 50%. This will have a significant impact on the achievement of the Audit Plan for 2020/21. Due to one Auditor post becoming vacant in September, a further reduction of 45 days is proposed to cover the extent of the vacancy.
10. Prioritisation of the audits based on their risk profile and key factors should mean that adequate coverage is achieved in order to form the annual opinion of the Council's overall internal controls.
11. The audits which have been prioritised for completion in the year are highlighted in the "Priority" column in Appendix 1.

#### **Internal Audit Charter and Strategy 2020**

12. There have been no updates to the Charter and Strategy following the release of Chartered Institute of Public Finance and Accountancy's (CIPFA) PSIAS Local Government Application Note 2019 last year.
13. The Internal Audit Charter is required under the PSIAS and CIPFA's Local Government Application Note. These two documents represent 'proper practice' for Internal Audit in local government to comply with the Accounts and Audit Regulations 2015.

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| <b>FINANCIAL IMPLICATIONS AND BUDGET PROVISION</b> |
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14. None

|                            |
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| <b>POLICY IMPLICATIONS</b> |
|----------------------------|

15. None

|   |  |
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| <b>FURTHER INFORMATION:</b><br><br><b>PLEASE CONTACT:</b><br><br><b>ALSO:</b> | <b>Ian Evenett (Internal Audit Manager) Ext 7175</b><br><b>Ilyas Ismail (Auditor) Ext 3151</b> |
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## Appendix 1

| Service                       | Audit Activity  | Audit Days | Total       | Priority   |
|-------------------------------|---|------------|-------------|------------|
| Corporate                     | Annual Governance Statement   | 25         |             | 25         |
|                               | NFI   | 10         |             |            |
|                               | Charities   | 5          |             | 5          |
|                               | Debts Write-Off   | 8          |             |            |
|                               | Fraud Risk Review   | 5          |             |            |
|                               | Partnerships  | 10         |             |            |
|                               | Strategic Partner PI's  | 16         |             | 9          |
|                               | Safeguarding  | 8          |             | 6          |
|                               |   |            | <b>87</b>   | <b>45</b>  |
| Finance & Property            | Benefits Calculation Check  | 15         |             | 15         |
|                               | Final Accounts  | 5          |             | 5          |
|                               | Payments of Benefits  | 10         |             | 10         |
|                               | Treasury Management   | 10         |             |            |
|                               | Payment of Creditors  | 10         |             | 10         |
|                               | Council Tax   | 20         |             | 10         |
|                               | Payroll   | 5          |             |            |
|                               | Overpayment of Benefits   | 10         |             | 9          |
|                               |   |            | <b>85</b>   | <b>44</b>  |
| Information Governance        | IT Management   | 10         |             |            |
|                               | Information Governance  | 15         |             |            |
|                               |   |            | <b>25</b>   |            |
| Housing & Development Control | Empty Homes Initiative  | 15         |             |            |
|                               |   |            | <b>15</b>   |            |
| Legal & Democratic Services   | Electoral Registrations   | 8          |             |            |
|                               |   |            | <b>8</b>    |            |
| Green Spaces & Amenities      | Vehicles and Plant  | 8          |             |            |
|                               |   |            | <b>8</b>    |            |
| Economy & Growth              | Vision Park Project   | 10         |             | 10         |
|                               |   |            | <b>10</b>   | <b>10</b>  |
| Streetscene                   | Urbaser - Waste Contract  | 14         |             |            |
|                               |   |            | <b>14</b>   |            |
| External Clients              | Burnley Leisure – SLA   | 11         |             | 11         |
|                               |   |            | <b>11</b>   | <b>11</b>  |
| Other                         | Frauds and Investigations   | 20         |             | 7          |
|                               | Emergent Risks  | 12         |             | 7          |
|                               | Follow-Up   | 11         |             | 7          |
|                               | Advice and Guidance   | 9          |             | 4          |
|                               |   |            | <b>52</b>   | <b>25</b>  |
|                               | <b>Total Plan Days</b>  |            | <b>315</b>  |            |
|                               | <b>Total Available Days</b>   |            | <b>360</b>  |            |
|                               | <b>Less Adjustment for Business Continuity response / In year vacancy</b> |            | <b>-225</b> |            |
|                               | <b>Revised Total Available Days</b>                                       |            | <b>135</b>  | <b>135</b> |

## Appendix 2

# INTERNAL AUDIT CHARTER AND STRATEGY

## INTERNAL AUDIT CHARTER

**This Charter sets out the purpose, authority and responsibility of the Council’s Internal Audit function, in accordance with the mandatory UK Public Sector Internal Audit Standards (PSIAS).**

**The Charter will be reviewed periodically and presented to Management Team and the Audit & Standards Committee for approval.**

## PURPOSE

The Standards (PSIAS) define internal auditing 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.”*

CIPFA further define Internal Audit within their PSIAS Local Government Application Note as:

*“an independent and objective opinion to the organisation on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. It may also undertake consulting services at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources.”*

In a local authority, internal audit provides independent and objective assurance to the organisation, its Members as the Audit and Standards Committee, the Management Team and to the Chief Financial Officer (Head of Finance & Property) to help him discharge his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council’s financial affairs.

In addition, the Accounts and Audit Regulations 2015, Regulation 6 (1), requires that:

*“A relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal audit standards and guidance”.*

Internal Audit proper practices is defined as compliance with the Public Sector Internal Audit Standards and the CIPFA local government application note.

## ROLES IN THE CODE

The primary roles within the Standards are defined as below in respect of the Council.

|                       |                                 |
|-----------------------|---------------------------------|
| Board                 | - Audit and Standards Committee |
| Senior Management     | - Management Team               |
| Chief Audit Executive | - Head of Finance & Property    |

As there is potential for conflict and thus independence in respect of the operational role in the Head of Finance & Property and the Section 151 Officer, when this is place the Internal Audit Manager will be Chief Audit Executive, reporting directly to Management Team and/or the Audit and Standards Committee as required. All members of the Internal Audit team have unrestricted access to Management Team and the Audit and Standards Committee.

The Head of Finance & Property is directly managed by the Chief Operating Officer. The Head of Finance & Property and the Chief Operating Officer are both members of Management Team. The Internal Audit Manager directly manages the Internal Auditors and reports to the Head of Finance & Property.

## ASSURANCE FRAMEWORK

Within an organisation, controls can be modelled to a framework which identifies 3 lines of defence. The first line of defence is the day to day operational controls, the second is the management controls (budget & performance monitoring, trend analysis) and the third is independent inspection, both internal & external.

Internal audit forms part of the third line of defence and provides assurance on the effectiveness of governance arrangements, risk management and internal controls, and this includes an assessment of the effectiveness of the first two lines of defence. Internal audit can place reliance on assurances provided by third parties, although depending on the source, this may require some independent validation.

In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's risk management, control and governance processes.

The Institute of Internal Auditors (IIA) defines assurance as:

*“an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organisation. Examples may include financial, performance, compliance, system security, and due diligence engagements”.*

## MISSION AND CORE PRINCIPLES

The International Professional Practices Framework (IPPF) overarching “Mission” for Internal Audit services is:

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

The “Core Principles” that underpin delivery of the mission require internal audit functions to:

- Demonstrate integrity.
- Demonstrate competence and due professional care.
- Be objective and free from undue influence (independent).
- Align with the strategies, objectives, and risks of the organisation.
- Be appropriately positioned and adequately resourced.
- Demonstrate quality and continuous improvement.
- Communicate effectively.
- Provide risk-based assurance.
- Be insightful, proactive, and future-focused.
- Promotes organisational improvement.

This aligns with the Council's values;

- T Together
- E Enterprising
- A Ambitious
- M Meeting Customer Needs

And applied within the Council's Strategic Priorities of the 4 P's

- People
- Prosperity
- Place
- Performance

To deliver the Council's Strategic Objectives.

## PUBLIC SECTOR INTERNAL AUDIT STANDARDS

The Relevant Internal Audit Standard Setters (RIASS) have adopted a common set of Public Sector Internal Audit Standards (PSIAS) since April 2013 and was last updated in March 2017. CIPFA updated its Local Government Application Note (LGAN) in February 2019.

### THE PURPOSE OF THE PSIAS

- Define the nature of internal auditing within the UK public sector;
- Set basic principles for carrying out internal audit in the UK public sector;
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and,
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

Internal Audit has adopted all aspects of the PSIAS, including the mission, definition, code of ethics and both attribute and performance standards.

CIPFA and the IIA have provided a 'Local Government Application Note' for these Standards and Internal Audit also complies with the further requirements and requirements of this.

### THE CODE OF ETHICS

Our auditors comply with the ethical codes issued by the relevant professional bodies (e.g. IIA, CIPFA) and the Council's own Code of Conduct. Internal Audit also have due regard to the Seven Principles of Public Life, as defined by the Committee on Standards in Public Life (Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, Leadership).<sup>1</sup>

The main principles, as set out in the PSIAS, which we will observe are:

- Integrity
- Objectivity
- Confidentiality
- Competency

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<sup>1</sup> <https://www.gov.uk/government/publications/the-7-principles-of-public-life>

Internal auditors are also required to sign up to the requirements of due professional care.

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## THE STANDARDS

The Standards have been developed to create consistency in the practice of internal audit across the public sector and establish the basis for quality assurance across the sector.

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### ATTRIBUTE STANDARDS

- Purpose authority and responsibility
- Independence and objectivity
- Proficiency and due professional care
- Quality assurance and improvement programme.

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### PERFORMANCE STANDARDS

- Managing the internal audit activity
- Nature of work
- Engagement planning
- Performing the engagement
- Communicating results
- Monitoring progress
- Communicating the acceptance of risks

## ASSURANCE AND CONSULTING SERVICES

All internal audit assurance and consulting services fall within the scope of the 'Definition of Internal Auditing'. The provision of assurance services is the primary role for internal audit. This role requires the internal audit to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This opinion is required to be considered as part of the Council's Annual Governance Statement.

Consulting services are generally advisory in nature and are performed at the specific request of the organisation, with the aim of improving governance, risk management and control and may contribute to the overall opinion. Such consulting services may include advice and guidance, counter fraud services, investigation, risk management support, governance reviews, information governance, training and more general consulting services where this does not compromise the independence of the service. This means that the auditor cannot undertake management responsibilities in these areas in which they are required to provide assurance.

Consulting services may also provide assurance and contribute to the annual internal audit opinion.

The scope of the internal audit service covers the whole organisation and all its services. Assurance and consulting services are provided to any area of the organisation both financial and operational. However, there are limited resources and as such the provision of services will be dependent on the overall value to the organisation and risks covered.

The responsibility for maintaining effective controls to counter fraud is the responsibility of the Council's management. It is important that Internal Audit is made aware of any suspected or detected fraud, corruption or impropriety which is required as part of the Financial Procedure Rules. Internal Audit will provide assurance about counter fraud arrangements in the organisation and may investigate in conjunction with management where this is appropriate and is authorised by the Head of Finance & Property.

Internal Audit Services are provided under a Service Level Agreement for Burnley Leisure. In this case the service will be delivered with available assurance about the shared systems where possible, but the reports are confidential to each organisation. For Burnley Leisure, the trust's Chief Executive is identified as the client officer and the trust's Audit Committee as the board.

## RESOURCES AND SKILLS

The current level of resources is considered sufficient to deliver the audit plan. Additional requests for work will be controlled to ensure they are kept within available contingency allowance, and do not compromise assurance work.

Auditors are encouraged to develop their skills and knowledge through undertaking various training programmes. The Council recognises both CIPFA and the Chartered Institute of Internal Auditors (CIAA) qualification for internal auditing. Two team members currently have CIPFA qualifications.

Training needs are assessed on an ongoing basis and are formally reviewed during annual staff Personal Development Review meetings. The aim is to ensure auditors are operating at a level which fulfils client requirements and meets professional standards.

If the necessary skills/resources for an assignment is not available with the Internal Audit team, the Head of Finance will request further budget resources to provide flexibility to source these internally or externally, as required.

## ACCESS TO THE ORGANISATION

The internal audit service has a statutory right of access in the Accounts and Audit Regulations 2015 Section 5

*(2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit-*

*(a) make available such documents and records; and*

*(b) supply such information and explanations; as are considered necessary by those conducting the internal audit.*

*(3) In this regulation "documents and records" includes information recorded in an electronic form.*

In addition, this access is part of the Council's Financial Procedure Rules.

## INDEPENDENCE

Internal audit is organisationally part of the Finance & Property Service, but it is independent to ensure that this does not impact on the provision of internal audit services to the whole organisation.

Internal audit is not functionally responsible for the management of any service, apart from itself. This is the responsibility of the organisation's management. Where such a conflict is identified it will require the removal of the individual auditor from auditing such a service for at least 12 months.

Each internal auditor can access members of the Management Team or the Audit and Standards Committee where they consider that there is a real or apparent conflict of interest that has not been appropriately addressed.

## RESPONSIBILITIES

Each member of internal audit is responsible for complying with the code of ethics and maintaining due professional care and operating a service in compliance with the Standards.

The Internal Audit Manager is responsible for managing the day to day service and ensuring that the service meets the requirements of the Council and Standards. They implement appropriate audit processes which are approved by the Head of Finance & Property.

The Head of Finance & Property is responsible for delivery of an effective independent internal audit service to the Council in accordance with proper practice (in compliance with the Standards and LGAN).

Management Team is responsible for ensuring that the organisation facilitates an effective internal audit service.

The Chief Finance Officer (Head of Finance & Property), Monitoring Officer (Chief Operating Officer) and Head of Paid Service (Chief Executive Officer) are all part of Management Team and as such share the responsibility for the delivery of an effective internal audit service. They are responsible for ensuring that members of internal audit have unrestricted access to report whenever required.

The Audit and Standards Committee are responsible for key issues in the compliance of the Standards and oversight of the Internal Audit service and ensuring that organisation management facilitate an effective internal audit service.

## PLANNING

Internal Audit will provide an annual plan of audits for the Council based on risks. The planning process will involve the consideration of the Council's risk management, governance and control arrangements. It will consider the Council's strategic objectives and corporate priorities.

## INTERNAL AUDIT STRATEGY

**The Internal Audit Strategy is a relatively high-level statement of the approach to delivery of the service within the organisation and in compliance with the standards.**

**Internal Audit will provide independent and objective assurance to the organisation, its Members, senior management and to the Head of Finance & Property to support them in discharging their responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.**

**It is the Council's intention to provide a best practice, cost efficient internal audit service which adds value to the organisation's it serves.**

## INTERNAL AUDIT REMIT

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the Council's objectives. Under the direction of a suitably qualified and experienced Head of Internal Audit, Internal Audit will:

- Provide management and Members with an independent, objective assurance and consulting activity designed to add value and improve the Council's operations.
- Assist the Audit and Standards Committee to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
- Drive organisational change to improve processes and service performance;
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;
- Work closely with other assurance providers to share information and provide a value for money assurance and consultancy service and;
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Internal Audit will ensure that it is not involved in the design, installation and operation of controls to not compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice.

## SERVICE DELIVERY

The Internal Audit service will be delivered by council's Internal Audit Service.

The statutory Chief Audit Executive or Head of Internal Audit roles for the Council will be undertaken by the Head of Finance or the Internal Audit Manager where independence requires this. Both officers will support each other in the delivery of these roles.

## KEY PERFORMANCE TARGETS

Key Performance Targets are established and monitored on a quarterly basis by Management Team. Update reports will be provided to the Audit and Standards Committee in a form, frequency and content as agreed with the Chair of the Audit and Standards Committee. Delivery of the Annual Internal Audit Opinion will be as required by PSIAS and meeting the organisational expectations. Internal Audit risks are part of the Finance & Property Service risk register.

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## AUDIT PLANNING

Internal Audit has responsibility for preparing a balanced internal audit plan, ensuring audit maintains its independence and sufficient coverage to support the annual opinion. Each year, an audit plan will be presented to Management Team and to the Audit and Standards Committee, which will be based on the following:

- Requirements of the Council's Management team.
- Requirements as agreed with the Audit and Standards Committee.
- Review of available Corporate and Service Risk Registers and an audit activity risk analysis
- Outputs from other assurance providers
- Outputs from previous audit or fraud assignments
- Requirements as agreed with External Audit

Internal Audit will ensure management views and suggestions are considered when producing the audit plan.

The Internal Audit Plans are based on the following:

- **Council and Service Priorities and values:** The strategic objectives, service strategies and operational objectives are the starting point for planning and ensure that the internal audit is aligned with these.
- **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through a risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they are operating correctly. The selection of work in this category is driven by risk analysis, services' own risks priorities and will include work in areas where the Council services are delivered in partnership with other organisations.
- **Key Financial Systems:** Audits of the Council's key financial systems
- **Probity Audit** (Services and other establishments): Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice is confirmed.
- **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.
- **Contract Audit:** Audits of the procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- **Special Projects/Value for Money:** Specific areas of Council business which may be subject to change through the development and implementation of new systems, or delivery models, where poor value for money or failing service standards have been identified or where there are new or significant risks will be targeted for review as part of the audit planning process. Value for money work is generally incorporated within the main functional areas of audit activity.
- **Corporate Governance support:** Risk management support is provided to facilitate the review and implementation of risk management strategies and to take the lead in compiling the Annual Governance Statement.
- **Provision of advice and support:** Internal Audit is involved in providing advice and support on an ad hoc basis. This may involve the provision of general advice on risks and controls, or more detailed work with specific business areas where there are significant changes to systems and processes or decisions which require independent due diligence.
- **Fraud, Corruption and Financial Irregularities:** Internal Audit will investigate fraud and irregularity arising during the year and may work alongside officers on cases particularly where there are significant control issues requiring audit and fraud input.
- **Follow up work:** Follow up work on outstanding audit recommendations will be undertaken as required.

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## POLICIES AND PROCEDURES

All internal audit work will be undertaken in accordance with Council regulations and professional standards. There is an Internal Audit Process which sets out the audit system, for staff to adhere to, including quality control procedures.

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## QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

Internal Audit continuously reviews the quality and effectiveness of all aspects of the Internal Audit service. This includes:

- Establishing procedures that comply with the Public Sector Internal Audit Standards
- Maintaining a professional audit team with sufficient knowledge, skills and experience to carry out the Audit Plan. This includes undertaking appraisals and ensuring that training needs are identified and addressed
- Undertaking, reviewing and acting on client satisfaction surveys and feedback
- Reviewing audit methodology and benchmarking against best practice.

In line with the Public Sector Internal Audit Standards, Internal Audit has a quality and improvement programme in place. The results of the quality and assurance programme and progress against any improvement plans will be reported in the Annual Internal Audit Opinion report to the Audit and Standards Committee.