INTERNAL AUDIT PLAN 2022/23

NORTH HERTS COUNCIL
FINANCE, AUDIT AND RISK COMMITTEE
14 MARCH 2022

RECOMMENDATION

Members are recommended to approve the proposed North Herts Council Internal Audit Plan for 2022/23

Contents

1.   **<u>Introduction and Background</u>**

1.1   The mission of Internal Audit is "to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight". The Public Sector Internal Audit Standards (PSIAS) encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). These Standards note that a professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. The SIAS Board has approved the SIAS Internal Audit Strategy in December 2021 and this strategy outlines how SIAS will achieve the mission of Internal Audit and ensure ongoing compliance with the PSIAS. The following report follows the key principles within the Strategy related to Audit Planning and Resourcing, with the Strategy document itself being available to Members upon request.

1.2   The PSIAS set out how we must approach audit planning. The specific standards that we must adhere to are as follows:

Standard	Description
2010	A risk-based plan, setting out audit priorities consistent with the goals of the organisation.
2010	Linked to annual opinion need and internal audit Charter
2010.A1	Based on documented risk assessment, updated at least yearly and consulting Senior Management and Members
2010.A2	Reflect expectations of Senior Management, Members and other stakeholders
2020	Communicated to Senior Management for review and to Members for approval
2030	Ensure internal audit's resources are fit and effectively used
2030	Must explain how resource adequacy assessed, and set out results of any limits

1.3   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 Chief Audit Executive's Annual Opinion Report.

1.4   The Shared Internal Audit Service's (SIAS) Audit Charter which was presented to the December 2021 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 June 2022 FAR Committee meeting for Member approval.

1.5   Section 2 of this report details how SIAS complies with these requirements.
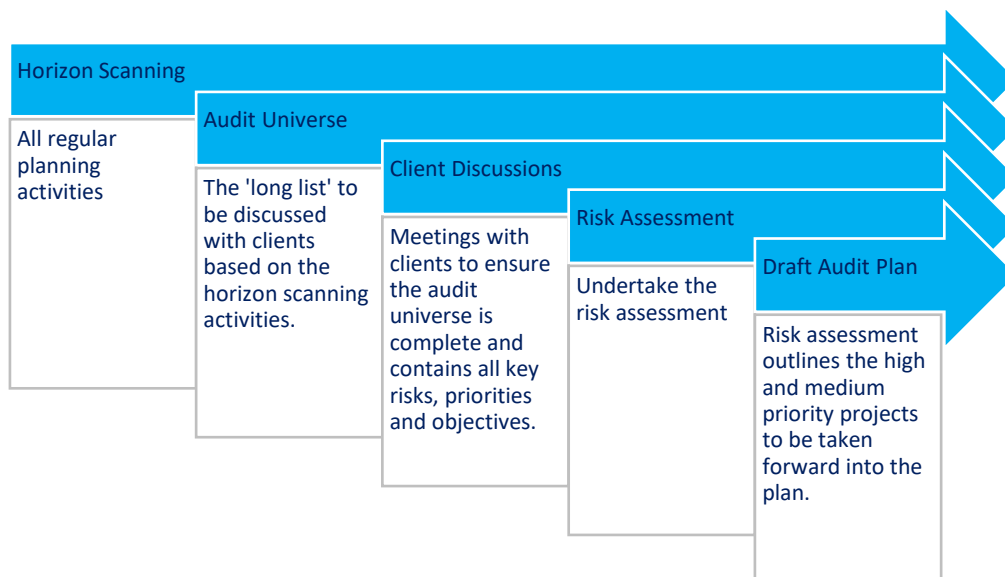
2. Audit Planning Process

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.
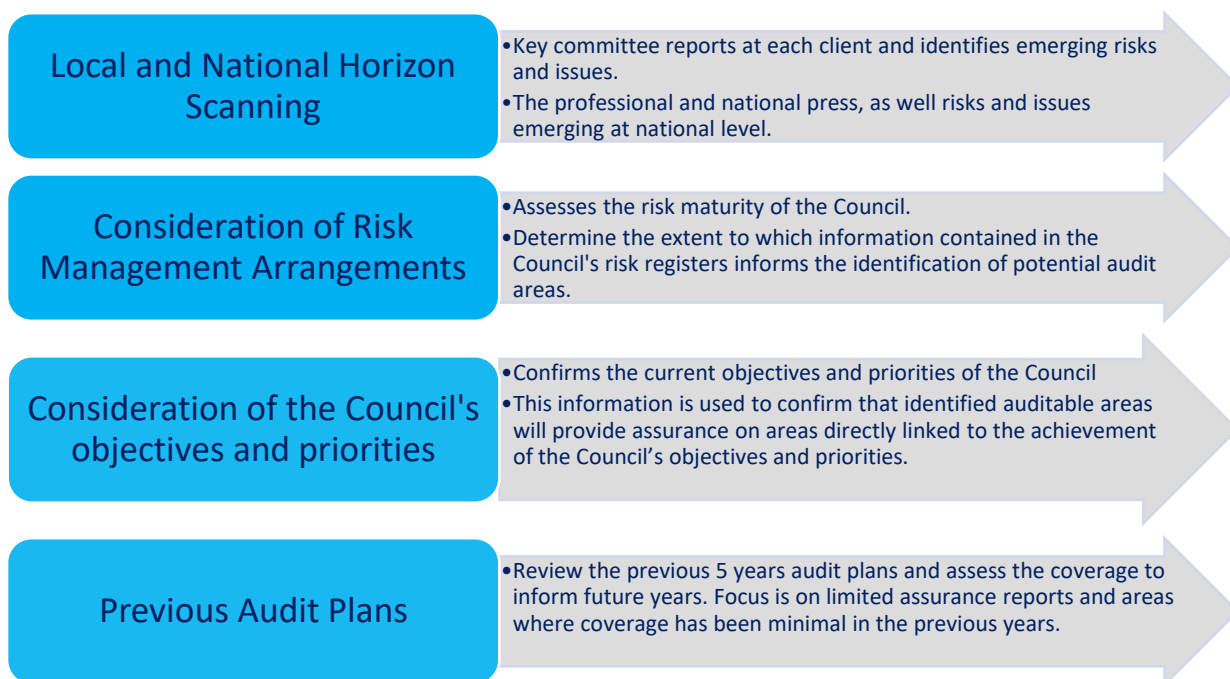
Approach to Planning

2.2 In June 2021, SIAS was subject an External Quality Assessment (EQA) and this provided observations relating to our approach to planning. As a result, SIAS has developed an updated approach to annual planning that ensures ongoing compliance with the requirements of the PSIAS, SIAS applies the following methodology at all its partners:

Horizon Scanning

All regular planning activities

Audit Universe

The 'long list' to be discussed with clients based on the horizon scanning activities.

Client Discussions

Meetings with clients to ensure the audit universe is complete and contains all key risks, priorities and objectives.

Risk Assessment

Undertake the risk assessment

Draft Audit Plan

Risk assessment outlines the high and medium priority projects to be taken forward into the plan.

Horizon Scanning and Audit Universe

2.3 SIAS conducts horizon scanning to ensure that it is aware of the key issues and risks locally and nationally as well as the corporate and service objectives of the Council. To do this, SIAS undertakes the following activities:

Local and National Horizon Scanning
- Key committee reports at each client and identifies emerging risks and issues.
- The professional and national press, as well risks and issues emerging at national level.

Consideration of Risk Management Arrangements
- Assesses the risk maturity of the Council.
- Determine the extent to which information contained in the Council's risk registers informs the identification of potential audit areas.

Consideration of the Council's objectives and priorities
- Confirms the current objectives and priorities of the Council
- This information is used to confirm that identified auditable areas will provide assurance on areas directly linked to the achievement of the Council's objectives and priorities.

Previous Audit Plans
- Review the previous 5 years audit plans and assess the coverage to inform future years. Focus is on limited assurance reports and areas where coverage has been minimal in the previous years.

2.4 Following the horizon scanning work, SIAS creates an Audit Universe based on all auditable areas and entities. The Audit Universe forms the basis of discussions with Senior Managers.

Client Discussions

2.5   SIAS undertook 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 gathering of information to inform the risk assessment phase of audit planning.

Risk Assessment

2.6   The overarching risk that SIAS bases planning against is the risk that audit work completed does not provide sufficient coverage and significance for SIAS to provide a robust annual opinion. Therefore, SIAS risk assesses each auditable area to ensure that their resources are directed appropriately.

2.7   To assess the priority level of the proposed assignments is to be decided using a methodology that allocates a score of 1-4 (1 = Low, 4 = High) to each of the following areas:

1. **Financial Materiality** – the relative significance of the system, process or service, in financial terms, to the Council.
2. **Corporate Significance** – the extent to which the system, process or service impacts on the Council's objectives, priorities or risks (including legal or regulatory requirements).
3. **Vulnerability and Change** – the extent to which the system, process or service is liable to breakdown, fraud, loss or error or changes that have taken place or due to take place.
4. **Management Concerns** – the management assessment of risk to the organisation

2.8   The following aspects will reduce the overall score:

1. **First line assurance** (e.g. Management) – assurance received from management through AGS processes, implementation of recommendations, etc.
2. **Second line assurance** (e.g. compliance, regulator, ombudsman, etc.) – assurance provided by other sources.
3. **Third line assurance** (e.g. Internal Audit) – previous assurance reviews completed in the specified service area, process or system.

2.9   Each element that affects the overall score is weighted to demonstrate the significance of the area when drawing an opinion or the quality of the assurance that has previously been received. This will provide an overall risk score and therefore determine if the project is deemed to be high, medium or low risk.

Draft Audit Plan

2.10   The results of the risk assessment and discussions with Senior Mangers provides a draft Internal Audit Plan. SIAS has presented this draft plan to the

Senior Leadership Team to seek their views on the assessments completed and to provide any further updates or comments. The outcome is now presented to Members as part of this report for their approval of the Draft Internal Audit Plan 2022/23.

The Planning Context

2.11   The context within which local authorities provide their services remains challenging:

- The full impact of Covid-19 may not be known and will continue to have significant impact on the Council's operations in future years. Whilst the longer-term impacts of the pandemic remain speculative, the current challenges and risks relate to economic impacts, growth, public health and equality for local authorities.

- From 1 January 2021, the UK entered into new trading arrangements with the EU ending 11 months of transition arrangements. The result of the changes to trading with EU based companies will have an impact on Council services with additional risks needing to be considered that include compliance with customs rules, continuity of supply / services and workforce pressures related to the right to work in the UK.

- Latest forecasts show a cloudy outlook for the UK economy, reflecting increasing national and international uncertainties. Local authorities will need to be attuned to the impact, including the potential reduction in business rates and increasing unemployment, on their local economies and services and any direct investments of their own.

- Demand continues to rise, driven by complex needs, an ageing population and challenges in the healthcare system. With reduced financial support, local authorities will have to continue to become more innovative and commercial.

- Cyber security remains a consistent threat to organisations and there are a growing number of local authorities that have been subjected to successful attacks recently. Continued vigilance and awareness remain key to protecting the information assets of local authorities.

- 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.

- Major national programmes in areas like changes to the retention of business rates, public health and housing mean the overall financial environment remains relatively unstable.

- There have been high profile governance issues, conflicts of interest, probity and procurement, at both national and local levels creating a culture of mis-trust in all tiers of government.

- Local authorities are facing significant challenges in relation to talent management, both in terms of recruitment and retaining staff meaning ability to remain resilient and deliver high quality services may become a concern in short term.

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

2.13 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 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 audit activity.

Internal Audit Plan 2022/23

2.14 The draft plan for 2022/23 is included at Appendix A and contains a high-level proposed outline scope for each audit; Appendix B details the agreed start months. The number of days purchased in 2022/23 remains the same as 2021/22 at 270 days.

2.15 The table shows the estimated allocation of the total annual number of purchased audit days for the year.

	2022/23 Days	%
High Priority Audits**	81	30
Medium Priority Audits**	70	26
IT Audits	35	13
Consultancy Assignments	15	5.5
Grants or Charity Certification	5	2
Joint Reviews and Shared Learning	4	1.5
Strategic Support*	38	14
Contingency	5	2
Completion of 2021/22 Projects	17	6
Total allocated days	**270**	**100%**

* This covers supporting the Audit Committee, monitoring delivery of the audit plan, client liaison and planning for 2023/24
** See paragraph 2.7 for the explanation of these audits.

2.16 SIAS will deliver all audits prioritised as 'High' in 2022/23 and will deliver at least eight projects prioritised as 'Medium'. In addition, all IT audits will be completed. The outcomes of these projects will support the Chief Audit Executive to form their overall opinion.

2.17 Any significant audit plan changes agreed between Management and SIAS will be brought before this committee for noting through the usual plan update reporting cycle. The postponement or cancellation of any high priority audits will require approval from the Chair of the Finance, Audit and Risk Committee.

2.18 The medium priority projects that will be undertaken will be approved by the Finance, Audit and Risk Committee in the meeting prior to the quarter commencing (e.g. Q1 and Q2 will be approved in March 2022, Q3 will be approved in June 2022 and Q4 will be approved in September 2022).

2.19 Members will note the inclusion of a provision for the completion of projects that relate to 2021/22. 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 demands on their time, e.g. year-end closure procedures.

2.20   The nature of assurance work is such that enough activity must have been completed in the financial year, for the Chief Audit Executive 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.

Resources

2.21   The Standard 2030 requires SIAS to consider our resources, how these will be effectively used and any limitations of the adequacy of resources.

2.22   Achievement of our role and objectives is predicated on the matching of audit needs to available resources through our work allocation processes. This is accomplished through the delivery of internal audit activities by a range of suitably qualified and experienced team members working flexibly in a matrix structure to maximise the value to all our partners and clients. SIAS resources are calculated based on the chargeability of each member of the team and the structure was designed to ensure sufficient chargeability to deliver all plans.

2.23   SIAS will utilise our internal audit delivery partner to provide service resilience and access to specialist skills not currently available within the service, or which are not economically viable to recruit and retain on a permanent basis.

2.24   SIAS staff are provided training and development across the year to support service delivery at our partners. In addition, SIAS provides funding for professional qualifications and currently has three team members studying towards their professional qualifications.

2.25   The service will be adequately resourced to deliver the number of planned internal audit days commissioned by North Herts Council. There are currently no limitations on the adequacy of resources in place to deliver the North Herts Council Internal Audit Plan 2022/23.

2.26   During 2022/23, SIAS is undertaking a number of service development activities designed to drive efficiency in our methodology. More details on this are provided to SIAS Board Members through the SIAS Service Plan updates and through the Annual Report provided to this Committee in September 2022.

3. Performance Management

<u>**Update Reporting**</u>

3.1 SIAS is required to report its work to a Member Body so that the 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. Progress against the agreed plan for 2022/23 and any proposed changes will be reported to this Committee four times in the 2022/23 civic year.

3.2 SIAS will report on the implementation of agreed high priority recommendations as part of the update reporting process.

<u>**Performance Indicators**</u>

3.3 Annual performance indicators were approved at the SIAS Board and are reviewed annually by the Board. Details of the targets set for 2022/23 are shown in the table below. Actual performance against target will be included in the update reports to this Committee.

Performance Indicator	Performance Target	Reporting Frequency
1. **Public Sector Internal Audit Standards** – the service conforms with the standards	Yes	Annually
2. **Internal Audit Annual Plan Report** – approved by the March Audit Committee or the first meeting of the financial year should a March committee not meet	Yes	Annually
3. **Annual Internal Audit Plan Delivery** – the percentage of the Annual Internal Audit Plan delivered	95%	Quarterly
4. **Project Delivery** – the number of projects delivered to draft report stage against projects in the approved Annual Internal Audit Plan	95%	Quarterly
5. **Client Satisfaction*** – percentage of client satisfaction questionnaires returned at 'satisfactory overall' level (minimum of 39/65 overall)	TBC*	TBC*
6. **Chief Audit Executive's Annual Assurance Opinion and Report** – presented at the first Audit Committee meeting of the financial year	Yes	Annually

*The approach for obtaining client feedback is currently being reviewed, therefore this indicator will be added, if it remains relevant, upon completion of this exercise.

APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2022/23

High Priority Audits (81 days)

Audit Title	Purpose of the Audit	Audit Sponsor
Climate Emergency	To provide assurance that actions taken have been monitored and measured to assess their impact and outcome. This is limited to actions that the Council has control over (e.g., direct delivery).	Service Director (Legal and Communities)
Waste Contract (Risk ref: CR66)	To provide assurance that the contract management arrangements are robust and that contract performance is monitored and managed effectively.	Service Director (Place)
Careline Operations	To provide assurance that there is effective governance arrangements in place to support service expansion and partnership working.	Service Director (Customers)
Procurement	To provide assurance the Contract Procedure Rules have been consistently applied in relation to exemptions and off-contract spending.	Service Director (Legal and Communities)
Risk and Performance Management	To provide assurance that the revised performance and risk management approach (Council Delivery Plan) is supporting the Council to manage risks in relation to performance objectives.	Service Director (Resources)
Business Continuity Planning (Risk ref: RR553)	To provide assurance that the change in approach to Business Continuity Planning has delivered an effective plan for managing business disruption.	Service Director (Place)
Centros Financial System	To provide assurance that the key controls within the Centros system are operating effectively in practice.	Service Director (Resources)

IT Audits (35 days)

Audit Title	Purpose of the Audit	Audit Sponsor
Cyber Risk (Risk ref: CR62)	To provide assurance that effective controls are in place to mitigate against cyber risks. This may include management of cyber security, awareness, network security and privileged accounts.	Service Director (Customers)

Phishing	To provide assurance that adequate anti-phishing arrangements are in place, tested, training has been provided and mechanisms are in place to record instances.	Service Director (Customers)
IT Hardware	To provide assurance that procurement and assignment of IT hardware was adequately controlled and meets business needs within the IT strategy and Council Ways of Working.	Service Director (Customers)

Medium Priority Audits (70 days)

Audit	Purpose of the Audit	Quarter	Audit Sponsor
Safeguarding	To provide assurance that there is sufficient awareness through training across the Council and that intervention activities are robust and in line with policies.	1	Service Director (Legal and Communities)
Annual Governance Statement	To provide assurance that the changes highlighted in the CIPFA Practice Note February 2021 have been considered and implemented.	1	Service Director (Legal and Communities) / Service Director (Resources)
Handling Difficult Customers Policy	To provide assurance that the policy is applied in practice, identification procedures exist and there are sufficient monitoring and enforcement activities in place.	1	Service Director (Customers)
Compliance Contract	To provide assurance that suitable alternative arrangements exist to ensure service provision is retained following the impending termination of the current contract.	1	Service Director (Resources)
Revenues Discounts and Exemptions	To provide assurance that discounts and exemptions on Council Tax and Business Rates have been correctly applied and, where appropriate, removed.	2	Service Director (Customers)
Community Lottery	To provide assurance that the governance arrangements for the partnership with Gatherwell are appropriate,	2	Service Director (Commercial)

	including the partnership agreement and suitable policies being in place.		
Green Space Strategy	To provide assurance that suitable monitoring arrangements exist to assess the alignment of the principles of the strategy to the actions taken and that contractor works align to the contractual agreement and the current strategy.	2	Service Director (Place)
Leisure Services (Risk ref: CR68.1)	To provide assurance that contract management activities are robust and manage the SLL contract adequately. Focus to be on the ongoing recovery of Leisure Services and the reporting of contractor performance.	2	Service Director (Place)
Covid-19 Recovery (Risk ref: CR68)	To provide assurance that the Council is on track in relation to implementing the recovery plan set and that actions completed to date have achieved the expected outputs and outcomes.	3	Service Director (Resources)
Parking Strategy (Risk ref: RR571)	To provide assurance over the implementation of the Parking Strategy including action monitoring and reporting.	3	Service Director (Regulatory Services)
Licensing Enforcement	To provide assurance that policies and procedures are in place and operate in practice to actively management licences granted by the Council.	3	Service Director (Legal and Communities)
Temporary Accommodation (Risk ref: CR60)	To provide assurance over the monitoring of usage and budget management of temporary accommodation.	3	Service Director (Regulatory Services)
Prudential Code Compliance	To provide assurance that the Council is compliant with the Prudential Code.	3	Service Director (Resources)
HTH Museum and Operations (Risk ref: RR554)	To provide assurance that the commercial interests of the Town Hall and Museum are appropriately managed including budget monitoring and planning, risk management and staffing.	4	Service Director (Commercial)

Project Management	To provide assurance that adequate corporate frameworks and guidance exists to support officers managing projects. To include access to template, guidance and training as well as project reporting consistency.	4	Service Director (Resources)
Fees and Charges	To provide assurance that robust procedures are in place and operational in terms of setting and communicating changes to fees and charges (e.g. inflationary increases).	4	Service Director (Resources)
Apprenticeships	To provide assurance that the apprenticeship levy is fully utilised and that the apprentice policy maximises benefits for the Council and the apprentices. l.	4	Service Director (Resources)

Consultancy Assignments (15 days)

Assignment Title	Assignment Purpose	Assignment Sponsor
Strategic Planning (Local Plan)	To critically assess the decision-making process following the outcome of the Local Plan.	Service Director (Regulatory Services)
MSU Impact of Ways of Working	To assess the impact of the new ways of working on the Management Support Unit, to include digitalisation, home working and ongoing workload.	Service Director (Customers)

Grant Claims / Charity Certification (5 days)

Grant / Charity Title	Purpose
King George V Playing Fields	To certify the accounts relating to the King George V Playing Fields.
Workman's Hall	To certify the accounts relating to the Workman's Hall.
Miscellaneous Grants	To certify any grant claims required during the year

APPENDIX A – PROPOSED NORTH HERTS COUNCIL AUDIT PLAN 2022/23

Joint Review and Shared Learning (4 days)

Joint Review to be determined by the SIAS Board.
Shared learning activities undertaken across the year.

Contingency (5 days)

Available time for ad hoc as required.

Strategic Support (38 days)

Title	Purpose
Chief Audit Executive Annual Opinion Report	To prepare the Chief Audit Executive Opinion 2021/22.
Audit Committee	To provide services linked with the preparation, agreement and presentation at the Finance, Audit and Risk Committee reports.
Performance Monitoring	Audit plan monitoring against agree KPIs.
Client Liaison	Meetings with the S151 Officer, preparation and attendance at the Risk Group and other groups or meetings as required.
Audit Planning 2023/24	Provision of services to prepare, agree and report the 2023/24 Annual Audit Plan.
SIAS Development	Included to reflect the Council's contribution to developing the partnership.

2021/22 Carry Forward (17 days)

Available time for completion of 2021/22 projects.

APPENDIX B – AUDIT START DATES AGREED WITH MANAGEMENT

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
H	Careline Operations	Waste Contract	Climate Emergency	Procurement
		Business Continuity Planning	Risk and Performance Management	Cosmos Financial System
M	**A minimum of 8 medium priority audits from the following (please see paragraph 2.16):**			
	Safeguarding	Community Lottery	Prudential Code Compliance	Apprenticeship Levy
	Annual Governance Statement	Green Space Strategy	Licensing Enforcement	Project Management
	Compliance Contract	Leisure Services	Temporary Accommodation	Payroll – Contract Management
	Handling Difficult Customers Policy	Revenues Discounts / Exemptions	Covid-19 Recovery	HTH Museum and Operations
			Parking Strategy	
IT	Phishing	Cyber Risk	IT Hardware	
C		Impact of Ways of Working for MSU	Strategic Planning (Local Plan)	
G/C				King George V Playing Fields
				Workman's Hall
O	2021/22 Carry Forward			

Key:

H – High Priority: 100% of audits will be delivered

M – Medium Priority: Eight of these audits will be delivered, FAR Committee to approve which audits will be delivered from this list

IT – IT Audits: 100% of IT audits will be delivered

C – Consultancy: Assignments will be delivered as part of the audit plan

G/C – Grant or charity certification to be completed as part of the audit plan

O - Other