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Portfolio	Cabinet Member for Resources
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## Internal Audit Plan 2020/21

### Executive Summary

- 1.1 This report sets out the proposed Internal Audit Plan for 2020/21 which has been developed in accordance with the Internal Audit Charter and with close liaison with both the Leadership Team and Senior Management to identify and evaluate the key areas of risk. This will provide appropriate coverage of Council services in order to ensure that an independent opinion can be given on the effectiveness of risk management, control and governance processes at the end of the year. The Audit Plan also provides for flexibility to allow for new and emerging areas of risk to be evaluated during the course of the year.
- 1.2 This report therefore seeks to inform Audit and Governance Committee, in the context of the Members being charged with the overall responsibility for governance, of the proposed work programme of Internal Audit to facilitate approval of the Internal Audit Plan for 2020/21.

### Recommendation

2. The Audit and Governance Committee approve the Internal Audit Plan for 2020/21.

### Reason for Recommendation

3. This report sets out the work programme for Internal Audit for 2020/21. Internal Audit is defined within the Public Sector Internal Audit Standards 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. The focus of Internal Audit work includes the financial systems, operational and management controls and also includes risk management and corporate governance as a contribution to the proper, economic, efficient and effective use of resources.

## Key Points for Consideration

4.1 The objectives of RBC Internal Audit which inform the development of the annual audit plan are to:

- Deliver an annual Internal Audit opinion and report that can be used by the Authority to inform its Annual Governance Statement;
- Independently review and appraise systems of control throughout the Council;
- Ascertain the extent of compliance with procedures, policies, regulations and legislation;
- Provide reassurance to management that their agreed policies are being carried out effectively;
- Facilitate good practice in managing risks;
- Provide proactive advice and input into any significant system or procedural developments;
- Recommend improvements in control, performance and productivity in achieving corporate objectives;
- Review and challenge the value for money processes and systems within the Council;
- Work in partnership with the external auditors;
- Identify fraud as a consequence of its reviews and deter crime; and
- Lead and promote the counter fraud culture within the Authority.

### 4.2 **Audit Planning**

The Authority's Internal Audit Strategic Plan details all potential audit areas at a corporate level and across all service areas within RBC. Attached to each audit area is a risk score based on a number of risk factors which influences the frequency of audit review and the estimated resource requirements to cover each audit area. Specific audit scopes are discussed and agreed with management prior to the commencement of each audit to optimize the value added from each audit. The Audit Strategic Plan is reviewed and challenged annually in consultation with Directors and senior management to ensure it remains up to date, especially in these times of significant ongoing change.

4.3 The annual audit plan is determined from a number of sources:

- The Audit Strategic Plan identifying audit areas of highest risk, the date the audit review was last undertaken and frequency thereof;
- The corporate and service based risk registers, aligned with the corporate objectives, to identify areas of high strategic and operational risk;
- Discussions with members of the Leadership Team;
- Actions and developments identified in the Annual Governance Statement;
- Directors and Service Management Teams to advise on service developments and providing opinions on proposed audit coverage and audit scheduling;

- Issues highlighted by the Audit and Governance Committee;
- Changes and developments arising from corporate savings initiatives;
- The external auditor, advising on national developments and to avoid duplication with their own audit plan for the Authority;
- Issues identified from external assessments undertaken on Council services;
- External assurances required by agreed contractual or funding arrangements or legislative requirements; and
- Audit resource availability.

4.4 Provision exists within the audit plan for unplanned work such as special investigations involving suspected fraud and irregularity and the provision of ad hoc advice. For 2020/21 the provision for unplanned work amounts to 15.1% of the available time.

4.5 A risk based approach to individual audit reviews is now well developed. This embraces operational and management controls and the wider business risk, as set out within the Internal Audit Charter. It allows an opinion to be expressed on risk identification and exposure and the adequacy of systems in place to manage and control those risks.

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

4.6 The annual Internal Audit Plan for 2020/21 has been agreed with the Chief Finance Officer as s151 Officer. Agreement to individual Service Audit Plans has also been received from all relevant Directors through attendance at Senior Management Team Meetings, which form a core part of the ongoing client liaison process. A detailed breakdown of the Internal Audit Plan 2020/21 is included in Appendix A.

4.7 Audit coverage is prioritised and categorised between “core” work and “assurance” work. Core work relates to those areas, normally of higher risk, where Internal Audit review or support will add greatest value to the organisation. The projects within this category will be given the highest priority in the event of competing demands for Internal Audit involvement. Assurance work complements the work from the core plan and ensures an adequate level of Internal Audit review each year within each Service. Both core and assurance work form key elements of the Audit Plan to allow a formal audit opinion to be formed at the end of each year.

4.8 The assessment of risk for each audit within the Plan takes account of many factors including materiality, the risk of reputational damage, potential fraud risk, third party sensitivity, the extent to which the service area is governed by legislation or external regulation, results of previous audits or external inspections, the extent of recent change within processes and systems and the degree of manual intervention within processes. Priority within the plan will always be given to those audit areas assessed as either high or medium risk in this context.

4.9 The risk profile of the Authority is still dominated by the impact of the

Savings Programme and the fundamental restructuring of Council services that is continuing to take place as a result of the significant reductions to funding streams that have been directed by central government over recent years. Another major impact comes from the integration of health and social care services, supported by the establishment of a pooled budget arrangement and the development of a more formal Local Care Organisation (LCO). The LCO currently does not exist as a distinct legal entity in its own right, but operates under a partnership agreement and is therefore unable to take decisions separately from the individual partner organisations. Accordingly these factors continue to influence many areas of Internal Audit work over the coming year. As part of this, specific focus will be directed towards the various transformation programmes that are progressing as well as the governance and commissioning challenges that arise from developing and adopting new ways of working and different models of delivering services.

- 4.10 In view of the significant changes taking place within Services across the Council, this factor provided a starting point for the 2020/21 planning process more than the Audit Strategic Plan. The latter continues to be challenged and reviewed by Internal Audit, in conjunction with Service management, to ensure that it remains in line within the shape and structure of Council Services, functions and systems and continues to support the overall Internal Audit approach going forward.
- 4.11 Alongside the above, the core themes of the Audit Plan align with the significant risks currently faced by the Authority which include:
- The effectiveness of information governance within which ongoing challenges exist for the Council and the network of schools to remain compliant with various legislation and regulations, with specific reference to the General Data Protection Regulation which became effective on 25 May 2018;
  - Compliance with the Public Services Network which is crucial to ensure ongoing connectivity with key government systems;
  - Other key ICT system developments which support transformational change within services, including the Customer Transformation Programme; and other risks associated with cyber security, disaster recovery and IT asset management;
  - The impact of ongoing legislative changes and the personalisation agenda within Adult Care which is transforming the ways in which care is provided and funded, requiring a commensurate change in the systems and processes which support the services;
  - The Council's response and developments in processes and controls within Children's Services in the light of issues previously highlighted by external bodies in relation to child sexual exploitation and safeguarding;
  - The governance of and contractual relationships with significant external partners, such as Link4Life, on which increasing reliance may be placed to deliver significant services either for or alongside Council services;
  - The commissioning and performance management of external

service providers including the commissioning of care providers and off-contract placements within adult care, an area which is generating significant financial pressures for the Council at present;

- Significant contracts and capital projects, and compliance with procurement legislation and regulations, supported by the STAR shared procurement service;
- Initiatives associated with the climate emergency agenda promoted by central government which may involve significant investment in various projects to ensure both local and national targets are achieved within set timescales;
- Fundamental financial systems which support all significant transaction streams across the Authority, including council tax, business rates, treasury management, payroll, debtors and creditors;
- Projects supporting proposals linked with the commercialisation agenda to generate new income streams in the future which will mitigate against reductions in funding from central government;
- The robustness of decision making and approval processes, together with the adequacy of segregation of duties, specifically at a time when resources within the Council are reducing;
- The further development of a cohesive approach to managing the risk of fraud, which is enhanced at a time when the public sector is facing such significant economic challenges; and
- Ongoing changes within overall governance structures in order to promote improvements in the overall control environment.

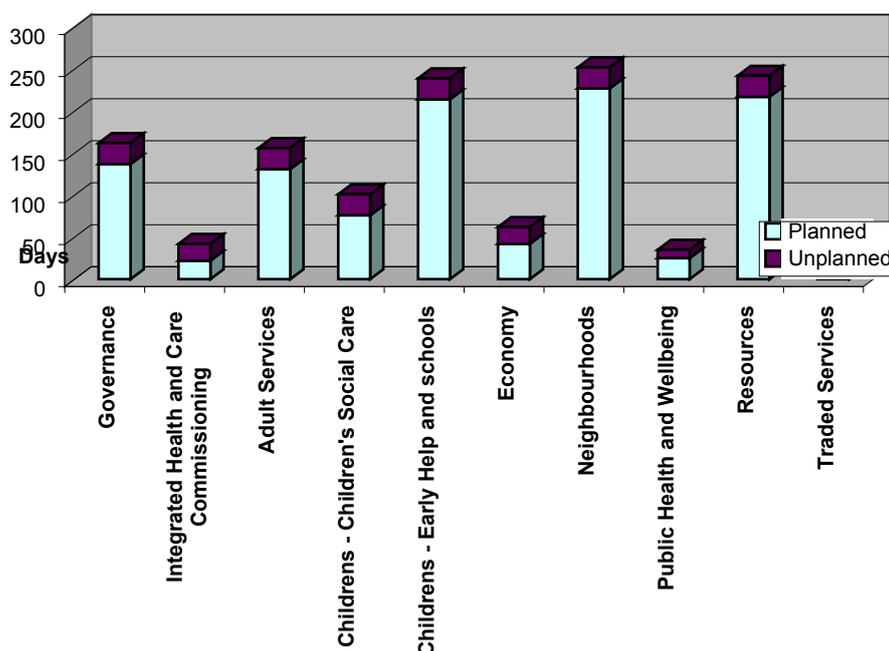
4.12 Internal Audit will continue to take a lead role, working in conjunction with the Monitoring Officer, in promoting and supporting the zero-tolerance approach to fraud adopted within the Authority. This will include:

- Supporting the promotion of and awareness of the Anti-Fraud and Corruption Policy (AFACP), including the Whistleblowing Policy;
- Further development of a pro-active approach to fraud detection which both aligns with and adds to the National Fraud Initiative;
- Supporting the above approach by further developing the use of data mining software to highlight further potential areas of risk;
- Monitoring and reporting on the Authority's response to various professional and sector led guidance and publications on best practice in fraud prevention and detection such as Fighting Fraud Locally;
- Directly supporting the Counter Fraud Team to investigate and prosecute any identified fraudulent activity and to ensure an effective exchange of relevant information with various enforcement agencies; and
- Ensuring compliance is being achieved with all key policies and there is adequate awareness across the Authority.

4.13 In addition to the above, Internal Audit will continue with the responsibility for co-ordinating the National Fraud Initiative. This will assist in providing input into future Internal Audit planning processes in relation to any specific issues that are highlighted through this exercise.

4.14 **Summary of Internal Audit Coverage by Service 2020/21**  
Planned and unplanned Internal Audit coverage by Service is summarised below:

**Planned and Unplanned Coverage by Service**



4.15 The focus of individual services continues to evolve and realign as structural changes across the Council become embedded. With ever reducing finances and resources, the challenges faced within these services continue to be very demanding to ensure that they meet the needs of customers as well as relevant statutory obligations. As such the level of assurance required to confirm that controls and processes are effective has increased to ensure that risks are appropriately managed and overall objectives are achieved.

4.16 The summary also reflects the contingency of unplanned time which allows Internal Audit to respond to new and emerging risks which may not be currently anticipated. As such, and in view of ongoing changes within Council services and activities, the Internal Audit Plan will be constantly reviewed during the course of the year to ensure focus is being directed towards the areas of highest risk.

**Other Sources of Assurance**

4.17 The development of the plan has taken account of other sources of assurances, both internal and external to Council activities which sit alongside the assurances provided by Internal Audit. This includes not only the process of challenge and decision making through the Cabinet and Committee structure, forming a core part of the Constitution, but also various forms of self-assessment such as the annual Director's Governance Assurance Statement and the Quality Assurance Frameworks within Children's Social Care and Adult Care.

- 4.18 In addition, there are a number of areas of ongoing self-review with reporting through to senior managers' groups and to Members as appropriate, including the following:
- Budget monitoring (revenue and capital);
  - Compliance with risk management strategy;
  - Review and management of major projects;
  - Performance management and service delivery;
  - Absence management;
  - Health and safety; and
  - Equality and diversity.
- 4.19 RBC Internal Audit work closely with the Internal Audit services based within Stockport BC, Trafford BC and Tameside BC to audit procurement areas within the scope covered by the STAR Procurement hub. Any such shared audits therefore provide assurance for all 4 authorities and any audit reports issued are shared with each Authority and reported through to their respective Audit Committees. The themes to be covered within the respective Audit Plans in 2020/21 include the following:
- Spend monitoring;
  - Contract management;
  - Compliance with Contract Procedure Rules; and
  - Social value delivery.
- 4.20 Further assurance is gained from other independent reviews undertaken by both external audit (Mazars) and other external bodies such as Ofsted, Care Quality Commission, HM Customs, Food Standards Agency, Information Commissioners Office etc. together with independent peer reviews undertaken within Children's Services and Adult Care to evaluate processes and practices against best practice standards. Internal Audit is also continuing to liaise with the Mersey Internal Audit Agency who provide internal audit services to the Clinical Commissioning Group in order to ensure that appropriate levels of assurance are gained as the integration of health and social care services develops.

#### **Internal Audit Performance Indicators**

- 4.21 The following performance indicators have been set in order to provide a measure of the performance of the Internal Audit team during each year.

<b>Performance Indicator</b>	<b>Target 2019/20</b>	<b>Estimate 2019/20</b>	<b>Target 2020/21</b>
<b>Economy</b>			
1. Cost per Audit Day (£) – excluding overheads	260	255	267
<b>Efficiency</b>			
2. Productive days per auditor	190	192	192
3. Percentage of audit plan completed	96	96	96
4. Percentage of draft reports issued within 14 days of completion of the audit	98	100	98
<b>Effectiveness</b>			
5. Percentage of recommendations accepted	98	100	98
6. Results of client surveys - % of marks in the top two categories (i.e. very good and good)	98	100	98

4.22 The basis for the targets that have been established is as follows:

1. Cost per Audit Day (£)

This indicator provides a measure of the cost of the Internal Audit function by evaluating the total controllable cost of the function (i.e. excluding overhead cost allocations) in relation to productive days spent directly on audit work. Cost per audit day will be ahead of target in 2019/20 (i.e. lower) due to ongoing efforts to minimize administrative and other non-productive time and direct as much resource towards meeting the demands being placed upon the Internal Audit team. It has also been positively impacted by income generated from traded services which has reduced overall net cost. The target for 2020/21 reflects the impact of slight increases in salary related costs.

2. Productive days per auditor

This indicator measures the efficiency of the Internal Audit function by calculating the average number of days spent by each member of the team on audit work, thus excluding non-chargeable time. Productive days per auditor will be slightly ahead of target in 2019/20 with significant efforts being directed towards minimizing administrative time. The target for 2020/21 has been aligned with the likely outturn for 2019/20.

3. Percentage of audit plan completed

This measure provides assurance that an appropriate proportion of the Audit Plan has been completed to enable an opinion to be delivered on the overall control environment. The percentage of audit plan completed in

2019/20 is likely to achieve the target for the year.

4. Percentage of draft reports issued within 14 days of completion of the audit

This indicator measures the efficiency of audit processes to ensure that draft reports are produced in a timely manner after the conclusion of the audit fieldwork. The target for 2019/20 will be exceeded and the target for 2020/21 has been made at the same challenging level as 2019/20.

5. Percentage of audit recommendations accepted

This indicator provides a measure of the acceptance of client management of the findings and recommendations arising from audit work completed. This target continues to be achieved.

6. Results of client surveys - % of marks in the top two categories (i.e. very good and good)

This indicator provides a measure of how client management evaluates the service provided by audit staff through the client survey document that management is requested to complete at the conclusion of each audit. The target continues to be achieved as Internal Audit continues to improve effectiveness in this area through a focus on enhancing overall service levels and customer liaison.

- 4.23 The structure of the Internal Audit team is set out in Appendix B and remains unchanged from 2019/20. The Head of Internal Audit considers the resource available remains sufficient to be able to fulfil the core objectives of the Internal Audit service, specifically to deliver an audit opinion on the overall control environment.

**Alternatives Considered**

- 4.24 No alternatives have been considered given the statutory responsibilities that are being fulfilled through this process.

<b>Costs and Budget Summary</b>
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5. There are no cost or budget implications arising from this report.

<b>Risk and Policy Implications</b>
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6. The Internal Audit function discharges the statutory responsibilities delegated to the Chief Finance Officer through Section 151 of the Local Government Act 1972 and the Accounts and Audit (England) Regulations 2015 to undertake an effective internal audit in accordance with public sector internal auditing standards or guidance. The Internal Audit Plan forms the basis on which an independent opinion on the effectiveness of risk management, control and governance processes can be provided at each year end for inclusion within the Annual Governance Statement. The main risk of not accepting the plan is that this opinion cannot be delivered to confirm and support the adequacy of the overall governance framework.

<b>Consultation</b>
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7. An extensive process of consultation is undertaken in order to develop this Internal Audit Plan, as set out within paragraph 4.3, in order to ensure that all key areas of risk are considered.

<b>Background Papers</b>	<b>Place of Inspection</b>
8. None	

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