

**REPORT TO:** **AUDIT AND STANDARDS COMMITTEE**

**DATE:** **4 MARCH 2020**

**TITLE:** **INTERNAL AUDIT STRATEGY AND PLAN 2020/21**

**LEAD OFFICER:** **SARAH MARSH, INTERNAL AUDIT MANAGER**  
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**RECOMMENDED that:**

- A** Effectiveness and contribution of the Internal Audit Strategy and Plan within the Council's assurance framework be considered.
- B** The Committee approves the Audit Strategy and Plan for 2020/21.

**INTRODUCTION**

1. The Internal Audit function provides independent and objective assurance and consulting services to Harlow District Council. This Internal Audit strategy summarises the key principles for Internal Audit for the period 2020/21, with some longer term aims. The strategy supports the Audit Plan which sets out the work of the Internal Audit service for the year.
2. Internal Audit supports and contributes to the achievement of the Council's 2020/21 corporate priorities and guiding principles. These have been taken into account whilst developing the Internal Audit Strategy and Plan.
  - a) Council priorities
    - i) More and better housing
    - ii) Regeneration and a thriving economy
    - iii) Wellbeing and social inclusion
    - iv) A clean and green environment
    - v) Successful children and young people
  - b) Council principles
    - i) Being the Community Leader
    - ii) Sound resource management
    - iii) Equalities and Fairness

## **PURPOSE**

3. The purpose of the Internal Audit Strategy and Plan is to document the Internal Audit team's approach to:
  - a) Provide independent and objective assurance to Councillors and senior management on the effectiveness of the Council's internal control framework
  - b) Ensure the recognition of the key risks the Council faces in meeting its objectives when determining and allocating the use of Internal Audit resources
  - c) Add value and support to senior management in providing effective control, whilst identifying opportunities for improving value for money
  - d) Deliver an Internal Audit Service that is compliant with the requirements of the Public Sector Internal Audit Standards.

## **Internal Audit Mission and Core Principles**

4. The Global Institute of Internal Auditors has developed an International Professional Practices Framework (IPPF) for auditors. The IPPF includes a mission statement and ten core principles which continue to be adopted by the Shared Internal Audit Service, and are listed below:
  - a) Mission: To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.
  - b) Core principles:
    - i) Demonstrates integrity
    - ii) Demonstrates competence and due professional care
    - iii) Is objective and free from undue influence (independent)
    - iv) Aligns with the strategies, objectives, and risks of the organisation
    - v) Is appropriately positioned and adequately resourced
    - vi) Demonstrates quality and continuous improvement
    - vii) Communicates effectively

- viii) Provides risk-based assurance
- ix) Is insightful, proactive, and future-focused
- x) Promotes organisational improvement

### **The Internal Audit Approach**

5. While Internal Audit provides assurance through completing a programme of planned work the service is also flexible and responsive to changing and emerging issues. Some audit work is delivered on a consultancy basis, contributing advice on risk and controls, for example ex-officio attendance at project meetings or undertaking a specific investigation of a newly identified issue.
6. The purpose, authority and responsibility of Internal Audit are formally defined in the Internal Audit Charter, which was approved at the November 2019 Audit and Standards Committee.

### **Key Deliverables**

7. The key deliverables for the Internal Audit service during 2020/21 are:
  - a) Delivery of the Audit Plan - the Internal Audit Manager will ensure there is sufficient audit coverage in order to provide an annual Internal Audit opinion and report, which feeds into the Council's Annual Governance Statement.
  - b) Integrated approach to assurance – Providing ongoing assurance to management on the integrity, effectiveness and operation of the Council's internal control, governance and risk management processes. Working with other assurance providers including External Audit to prevent duplication of work.
  - c) Management commitment - Ensure agreed management responses to audit recommendations made are implemented thereby improving the overall control framework.
  - d) Continually develop our approach – To develop, improve and deliver a quality assurance and improvement programme for the service, including working closely with the Audit and Standards Committee and senior management.

- e) Business insight - working closely with Officers, Members and services to establish greater relevance to what matter most to the Council by contemplating current and future key risks and challenges.

### **Protocol for Audit Reviews**

- 8. We will conduct each review in line with our standard audit methodology which is aligned to the Public Sector Internal Audit Standards.
- 9. For each audit a Lead Auditee will be identified who will be involved in scoping to ensure the audit is appropriately focused on key risks areas, providing assurance and maximising added value. Terms of reference will be produced for each audit to ensure the scope, objectives and approach are agreed with the appropriate Head of Service.
- 10. Following fieldwork a draft Internal Audit report will be issued for discussion with the appropriate levels of management which is normally set out in the terms of reference.
- 11. Final reports will be issued after the agreement of draft reports and will contain completed management actions plans identifying those responsible for their implementation and appropriate timescales.
- 12. Agreed actions or recommendations will be followed up through the Internal Audit tracker process. All high priority recommendations and any passing their original implementation date are reported to the Audit and Standards Committee.

### **Quality Assurance and Performance Management**

- 13. The Internal Audit Quality Assurance and Improvement Programme ensures the work of the Internal Audit function conforms with the Public Sector Internal Audit Standards (PSIAS), operates in an efficient and effective manner and is adding value and continually improving Internal Audit activity. This is achieved through internal and external assessment, monitoring, and reporting on performance.
- 14. In November 2016 the Internal Audit function underwent an External Quality Assessment (EQA), which, in line with the PSIAS, must be conducted every five years by a qualified, independent assessor from outside the Council. The EQA, which covered all three Councils in the shared service, confirmed the Internal Audit service complied with the Public Sector Internal Audit Standards. Annual internal review confirms this compliance still holds true.

15. To achieve planned coverage, deliver a high standard of customer care and demonstrate effectiveness of the service, performance targets have been established based on best professional practice.

16. The following service performance targets will be reported on in 2020/21:

**Table 1 – Service Performance Targets 2020/21**

Aspect of Service	Performance Indicator	Target
Audit Plan	<ul style="list-style-type: none"> <li>Achievement of the annual Plan</li> </ul>	<ul style="list-style-type: none"> <li>Sufficient Internal Audit work in order that the Internal Audit Manager can give their annual opinion.</li> </ul>
Internal Audit processes	<ul style="list-style-type: none"> <li>Issue of draft report after closing meeting</li> <li>Issue of final report after draft report is agreed</li> </ul>	<ul style="list-style-type: none"> <li>10 working days</li> <li>5 working days</li> </ul>
Effective management engagement	<ul style="list-style-type: none"> <li>Management responses within 10 working days of draft report</li> <li>Implementation of agreed audit recommendations</li> </ul>	<ul style="list-style-type: none"> <li>10 working days</li> <li>Within agreed timescales</li> </ul>
Continuous Professional Development (CPD)	<ul style="list-style-type: none"> <li>Auditors maintain and improve their knowledge, skills and other competencies through directed and self directed activities</li> </ul>	<ul style="list-style-type: none"> <li>40 hours of CPD activity per auditor</li> </ul>

### **Developing the Internal Audit Plan**

17. The methodology for developing the Internal Audit Plan is focused on the quantification of the risks associated with the Council's objectives in consultation with key Officers. This process also takes into account:

- a) Knowledge and experience accumulated in Internal Audit, including the results of previous audits
- b) A review of audit themes against the Corporate Risk Register and Council priorities
- c) The work of other assurance providers both internally and externally

- d) The external environment including economic climate, Brexit implications, government initiatives such as welfare reform and changes in funding
  - e) Harmonisation of themes with Borough of Broxbourne Council and Epping Forest District Council to enable benchmarking and sharing of good practice.
18. It is imperative there is good alignment between the Internal Audit Plan and the risks facing each Council. Through this, Internal Audit's work will help inform each Council's risk management framework, enabling greater recognition of key mitigating controls and other sources of assurances available. Where possible the risks identified in the Audit Plan, as set out in Appendix A to the report, have been taken directly from the Council's Risk Register.
19. In addition, an assurance map, as set out in Appendix B to the report, has been produced that provides a structured way to identify the main sources and types of risk assurances in the Council. This demonstrates sufficient Internal Audit work has either been undertaken or has been planned for the Council's key risks.
20. The Internal Audit Plan is indicative and changes may need to be made as the risk profile and priorities of the Council change. This will be achieved by ongoing review and amendment in consultation with relevant officers and any significant changes brought to the Audit and Standards Committee for approval.
21. It is important for Internal Audit to plan ahead and allocate resources over the medium term but still maintain a flexibility of approach. This is achieved by documenting known risks over a three year period so that the three year plan includes an indication of proposed audit work for years two and three, based on current known risks if circumstances remain unchanged. However, as new risks emerge audit resources over the medium term will be focused accordingly.
22. The sections of the Internal Audit Plan include:
- a) Corporate Framework – key risk areas including those defined in the Council's strategic risk register
  - b) Strategic themes – including cross cutting issues some of which will be incorporated within operational audits or will be undertaken through consultative work

- c) Service areas – operational audits determined on a risk assessment and/or business priorities

### **Priority Areas for 2020/21**

23. Having regard for the current risk profile of the Council the following have been identified as priority areas for Internal Audit work for 2020/21. These may not be audits in themselves, but cross cutting themes that will be fundamental to the scope of Internal Audit work undertaken:

- a) Risk Management – Internal Audit has a key role in promoting effective risk management and through its work continues to assist the Head of Finance in ensuring a robust risk management framework across the Council. The focus this year is assisting in strengthening the Council's approach to service/business planning and risk management
- b) Information Governance and Management - Internal Audit continues to work with the Council's Data Protection Officer, helping to ensure and maintain compliance across the Council
- c) Fraud – Internal Audit continues to support the Council's anti-fraud and corruption policy and is pivotal in ensuring a joined up approach the Council
- d) Value for Money (VfM) – A focus on VfM is reflected in Internal Audit's work mainly as a cross cutting theme within operational audits, benchmarking where appropriate with Epping Forest and Broxbourne. Audits will consider how the Council makes the best use of resources and assets, the balance of cost and performance and meeting the needs of our residents; and providing challenge on whether services could be provided in a different way
- e) Audit Planning, Strategy and Audit and Standards Committee Support – Internal Audit continue to work with the Audit and Standards Committee in developing its role in relation to best practice and to contribute to effective corporate governance of the Council.

24. At the operational level the key priorities of Internal Audit work in 2020/21 include:

- a) Harlow Trading Services (HTS) – Internal Audit continues to actively seek assurances on the adequacy of internal control, governance and the

management of risks regarding HTS from the Council's perspective.  
Individual audits will take into the account the outcomes from the HTS Best Value Review

- b) Key Financial Systems – the effectiveness of controls and management of risks with the core financial systems and processes remains a part of Internal Audit work. Audits have been scheduled on a cyclical basis so not all key financial systems will be undertaken each year
- c) New HR system – Internal Audit will provide advice as the new HR system is implemented and then after undertake audits on specific aspects to ensure no erosion of controls and the system (and associated processes) is working as intended.

## **Resources**

- 25. 2019/20 has been the third year of the formal shared service between Harlow, Epping Forest and Broxbourne Councils, with Broxbourne being the host authority and employer of the shared Internal Audit staff. A Shared Services Board meets regularly to oversee the implementation and delivery of the Internal Audit function, monitor common issues or themes arising from audits, assess quality and performance and consider major changes to the service. The Board comprises of key Officers from Broxbourne, Harlow and Epping Forest as well as the Internal Audit Manager.
- 26. The Internal Audit function consists of the Internal Audit Manager (1.0 f.t.e), three Senior Auditors (2.8 f.t.e) and three Auditors (each 1.0 f.t.e). One of the Auditor posts is being covered by an apprentice with a view to take them on permanently subject to performance. This was the same route taken by one of the other Auditors, who was made permanent in September 2019. In addition, the service has a call off contract with an external provider of Internal Audit to undertake more specialist audits when required.

## **Audit Plan**

- 27. The Audit Plan, as set out in Appendix A to the report, requires 342 days (the same as last year) as summarised in the table below:



**Table 2 – Summary of Audit Plan**

Thematic Area	Audit days 2020/21
Assurance framework including governance, fraud, value for money and risk management	40
Information and performance management	25
Projects, Joint Working and Partnerships	32
Financial audits	32
IT Audits	23
Cross cutting/themed audits	42
Operational Audits	79
Follow Up work	25
Audit Committee Support including training	12
Advice, other engagement with the business and contingency	32
<b>TOTAL</b>	<b>342</b>

## **IMPLICATIONS**

### **Environment and Planning (includes Sustainability)**

None specific.

Author: **Andrew Bramidge, Head of Environment and Planning**

### **Finance (includes ICT)**

Failure to achieve the audit plan may lead to a lack of assurance that internal controls are effective and risks properly managed.

Author: **Simon Freeman, Head of Finance and Deputy to the Chief Executive**

### **Housing**

None specific.

Author: **Andrew Murray, Head of Housing**

### **Community Wellbeing (includes Equalities and Social Inclusion)**

None specific.

Author: **Jane Greer, Head of Community Wellbeing**

## **Governance (includes HR)**

The responsibilities, duties and obligations of Internal Audit are set out in the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (2017) against which activity should be measured and determined.

Author: **Simon Hill, Head of Governance**

## **Appendices**

Appendix A – Internal Audit 3 Year Plan 2020/21-2022/23

Appendix B – Harlow Risk Based Assurance Map

## **Background Papers**

Public Sector Internal Audit Standards

Internal Audit Charter

Internal Audit resource plan and risk assessment

## **Glossary of terms/abbreviations used**

EQA – External Quality Assessment

f.t.e – full time equivalent

HTS- Harlow Trading Services

IPPF – International Professional Practices Framework

PSIAS – Public Sector Internal Audit Standards

VfM – Value for Money