



Derby City Council

AUDIT & ACCOUNTS COMMITTEE
29 July 2020

ITEM 15

Report sponsor: Director of Financial Services
Report author: Head of Internal Audit

Internal Audit Plan 2020/21 and Internal Audit Charter

Purpose

- 1.1 To brief the Committee on the impact of the COVID-19 pandemic on the Council's internal audit function and the implications for Internal Audit work planned in 2020/21.
- 1.2 To seek Committee approval of CMAP's Internal Audit Charter.

Recommendations

- 2.1 To note the need to vary the approach for developing and delivering the Internal Audit Plan for 2020/21.
- 2.2 To consider and approve the Internal Audit Charter at Appendix 1.

Reasons

- 3.1 The Audit and Accounts Committee is responsible for providing assurance to the Council on the effectiveness of its governance arrangements, its risk management framework and the internal control environment. The work of Internal Audit supports Committee in providing this assurance.

Supporting information

Background to Internal Audit Planning

- 4.1 The Audit Plan must incorporate sufficient work to enable the Chief Audit Executive (Head of Internal Audit) to give an opinion for the 2020/21 financial year on the adequacy of the Council's overall governance, risk and control environment. Internal Audit must therefore have sufficient resources to deliver the Audit Plan.
- 4.2 Management needs to ensure that the appropriate control measures are in place to manage risk and are applied consistently across all services and that there are good governance arrangements to ensure that the Council is operating within both the legal framework and its own protocols and standards.
- 4.3 In accordance with the Public Sector Internal Audit Standards (PSIAS), Internal Audit must develop a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals, for the coming financial year.

- 4.4. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.
- 4.5. The Chartered Institute of Public Finance & Accountancy's (CIPFA) Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards 2019 Edition (issued February 2019) states: "In the context of the PSIAS, 'opinion' means that internal audit will have done sufficient, evidenced work to form a supportable conclusion about the activity that it has examined."
- 4.6. In response to questions around the COVID-19 pandemic and the impact it is having on the ability of Internal Audit functions to achieve "sufficient" internal audit work, the UK Public Sector Internal Audit Standards Advisory Board (IASAB) has stated that it is not endorsing a reduction in coverage, although it is acknowledging the challenges and pressures internal audit is facing now. The IASAB has said that the judgement of what is 'sufficient' must ultimately lie with the Head of Internal Audit.

Internal Audit Plan 2020/21

- 4.7. The COVID-19 pandemic meant that the Committee meeting on 25th March 2020, which would have considered the Internal Audit plan for 2020/21, was cancelled. A meeting scheduled for 17th June 2020 was also cancelled.
- 4.8. The subsequent period of lockdown and the changing risk environment has meant that there are a number of considerations/challenges for internal audit in delivering its audit plan for 2020/21. These are outlined below:

Considerations for Internal Audit

There is a need for an assessment of the longer term disruption and the consequences arising from the Covid-19 pandemic. However, the internal audit function will need to consider how it addresses a number of issues to deliver its audit work in 2020/21. The key considerations are:

- How it adjusts the planned audit coverage to ensure that it reflects a constantly changing risk environment.
- How it can deliver its assurance activities without disrupting critical operational areas.
- How it can work more closely with other assurance providers.
- How it can provide real time assurance.
- How it can avoid having to deliver a large proportion of the audit plan later in the year when capacity is under pressure.
- How it evaluates the impact of a fast moving/changing organisational environment which may make planned audits redundant or no longer relevant.
- How the overall effect of the pandemic will impact on the Head of Internals Audit's ability to provide an overall annual opinion on governance, risk and control.

Challenges for Internal Audit

The pandemic has also created several challenges for internal audit in delivering its work:

- Remote working – how does audit management keep staff motivated and supported? How does internal audit maintain a corporate presence?
- Approach to audit work – should internal audit be more substantive in its approach, given that there may be more workarounds/control override, an increased opportunity for fraud (both internal and external to the organisation)?
- Redeployment of staff – how does audit management cope with a decrease in capacity and how can it maintain independence?
- Standards – How does audit management ensure continued conformance to the Public Sector Internal Audit Standards?

Because we are now operating in an environment of uncertainty, it is not possible to assess at the current time how long this situation will last and what the future holds. However, internal audit functions need to take the opportunity, like most organisations should, to adopt practices that they have found work well during this crisis and treat them as the "new normal".

- 4.9 As outlined in paragraph 4.4 of this report, internal audit plans need to be flexible to respond to changes in risk and organisational changes. Therefore, I intend to review and refresh the original internal audit risk assessment that was developed for 2020/21 on a regular basis. However, I don't want to rush into a revised assessment and draw up a new/revised plan yet as I don't know when things will start to get back to normal and I will need to assess what resources CMAP has available, not just for Derby, but across the partnership to deliver all the audits. I am not intending to bring a revised plan to this meeting or the one scheduled for September, because the Council needs to reassess its risks, review its working practices (will it automatically return to the old ways of working?) and governance arrangements in light of changes made during the pandemic.

Note: A similar approach is being proposed by several other Heads of Internal Audit in Local Authorities.

- 4.10 It may be that our focus is more of an advisory and consulting role during this year to support the Council to get back to the "new normal". Also, I will need time to understand and assess any new/changes to the Council's systems, processes and functions. I will need to consider feedback from managers on how their risks have changed in their services, any changes they have made to processes and controls during the pandemic etc.
- 4.11 It has been agreed with the Council's s151 Officer, the Director of Financial Services, that Internal Audit work will be based on quarterly planning. As the situation develops, more firm audit plans will be brought back to the Committee on a quarter by quarter basis. Given the level of uncertainty at the current time, it is almost impossible to plan further ahead than a month at a time, which is not ideal. However, Table 1 below contains details of "new" internal audit work that has been started in quarter 1 to date.

Table 1: Audit coverage in Quarter 1 2020/21

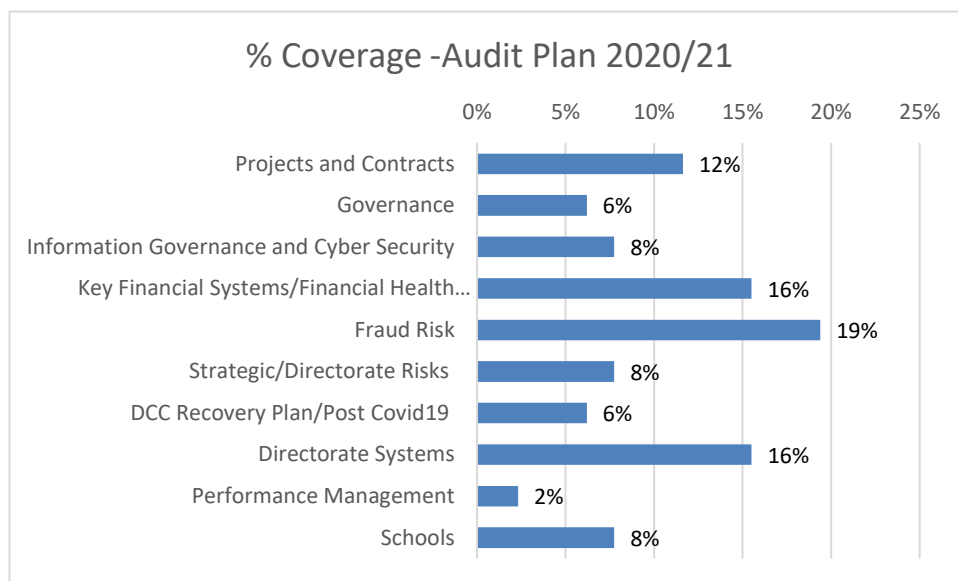
Audits	Comments
People Services	
Carelink Service	Preliminary work for future audit work
School Admissions	Assurance on the admissions process, including in-year admissions and appeals.
Corporate Resources	
Grant Certification Work 2020/21	Mandatory work to certify the spend of grant monies
Covid19 Business Support Grants	Ongoing advice re system/processes in place for administering government financial support to local businesses.
Communities & Place	
Asbestos Removal Contract Management	Assurance on the arrangements in place that allow contractual obligations and expectations to be identified and monitored effectively
Sinfin Waste Plant	Initial meeting held with lead officer. Review of background information provided
Neighbourhood Working	To ensure the use of funds by Neighbourhood Boards is properly controlled and managed. CMAP will also provide consultancy around the recovery strand on the community response.
Strategic Housing	To provide assurance around the consistency and effectiveness of the operation in delivery of the strategies
Strategic Housing - Disabled Facilities Grants	To review the changes made to the procedures to ensure a more customer focused approach is being taken around the processing of DFG applications.
Covid19 Discretionary Support Grants	Ongoing advice re system/processes in place. Data matching around claims to ensure no duplicate claims between schemes etc.
IT Audits	
Microsoft 365 Security	To compare the design, management and configuration of all components against recognised best practice.
File Server Security Risk	Final Audit Memo issued
Boundary Defence	A new LAN/WAN project is in progress that will change many of the boundary defences. The audit is designed to ensure the boundary defences are configured and managed in line with best practice.
Controlled Use of Administrative Privileges	To ensure that these align with Cyber security best practices
Back Up Files – Follow Up	Final Audit Memo issued
Allocated but not yet started	
People Management	To provide assurance on the system of monitoring of compliance with HR policies

- 4.12 Internal Audit reviews started in 2019/20 and carried forward into 2020/21 are detailed in the Internal Audit progress report and the Internal Audit Annual Report.
- 4.13 The areas of work that the Head of Audit plans to undertake over the next quarter will be drawn from the following broad audit categories that were developed during the annual audit risk assessment exercise are shown in Table 2 below. The Director of Financial Services has asked that the audit work in 2020/21 concentrates on those areas of risk identified by CIPFA – fraud, resilience and financial health – as well as the impact of Covid19 on governance arrangements. The finer detail of actual coverage is subject to changes as the situation develops.

Table 2: Indicative Audit coverage for Quarters 2 -4 2020/21

Audit Area	Proposed coverage
Projects and Contracts	To provide assurance on the management of significant capital projects, management of revenue contracts (e.g. Offsite Storage Contract) and the procurement and management of Framework contracts.
Governance	To provide assurance on compliance with the CIPFA/SOLACE Principles and to review the governance changes made during the coronavirus pandemic.
Information Governance and Cyber Security	Assurance on IT Infrastructure and applications and on the actions in place to reduce the vulnerability of the Council 's IT estate to cyber-attacks. Assurance on compliance with the DPA 2018 - Data Sharing Agreements, data breaches.
Key Financial Systems/Financial Health and resilience	To include audit work around the financial risk and resilience of the Council arising from the challenges brought about by the coronavirus pandemic.
Fraud Risk	Collaboration with the Counter Fraud Team on the identification of key fraud risk areas. This will also include data matching and specific work on the fraud risk arising from administering the Business Support Grant scheme.
Strategic/Directorate Risks	Assurance reviews on the key risk issues identified in risk registers e.g. Demand Management in People Services.
DCC Recovery Plan/Post Covid19	Consultancy work around the recovery strands including community response, working in partnerships.
Directorate Systems	To provide assurances on the key risk areas within Directorates e.g. to provide assurance on the proper administration of s106 agreements, governance and financial arrangements of RAM Energy etc
Performance Management	To provide assurance on data quality e.g. accuracy of performance data.
Schools	To provide assurance to the Council on financial/other governance arrangements in local authority-controlled schools.

4.14 The proposed % coverage for each identified audit area is shown in the chart below:



Internal Audit Charter

- 4.15 The Internal Audit Charter is a formal document that defines internal audit's purpose, authority, responsibility and position within the organisation. The Charter should set out the nature of services that internal audit will provide and how internal audit will help the organisation to achieve its objectives.
- 4.16 The Internal Audit Charter is vital to internal audit's success and should be reviewed periodically by the chief audit executive and presented to the Audit and Accounts Committee for approval.
- 4.17 CMAP reviews its Charter on an annual basis and takes it to each partner organisation's audit committee for approval. The Charter is contained in Appendix 1 to this report.

Public/stakeholder engagement

5.1 None

Other options

6.1 None

Financial and value for money issues

7.1 The Council's contribution to CMAP for 2020/21 will be £496,714.

Legal implications

8.1 None

Other significant implications

9.1 None

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal Finance Service Director(s) Report sponsor Other(s)	Director of Financial Services	16 th July 2020

Background papers:	None
List of appendices:	Appendix 1 - Internal Audit Charter