

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 19 October 2020
Report of: Head of Finance and Audit
Subject: INTERNAL AUDIT ANNUAL PLAN 2020/21

SUMMARY

This report presents a draft plan of Internal Audit Work proposed for delivery in 2020/21.

The Audit and Governance Committee's areas of responsibility for Internal Audit include: -

- 1. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.*
- 2. To approve the risk-based internal audit plan, including internal audit's resource requirements, and the approach to using other sources of assurance, and any work required to place reliance upon those other sources.*
- 3. To approve significant interim changes to internal audit plan and resource requirements.*
- 4. To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.*

RECOMMENDATION

It is RECOMMENDED that the Committee approves the draft Annual Audit Plan for 2020/21 as attached as Appendix A.

INTRODUCTION

1. A requirement of Internal Audit Standard 2010 is that *'a risk-based plan is established to determine the priorities of internal audit activity, consistent with the organisation's goals'. 'It must take into account the requirement to produce an annual internal audit opinion and the assurance framework'*.
2. The Annual Audit Plan provides a mechanism in which the Head of Finance and Audit makes appropriate use of internal audit resources to produce the evidence needed to support the annual statement of assurance on risk management, internal control and governance arrangements.
3. At the meeting in March 2019, the Audit and Governance Committee approved the latest Internal Audit Charter which set out the following role and purpose of internal audit:

Internal audit role:

'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'.

Internal audit purpose:

'Fareham Borough Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.

Internal Audit plays a vital role in assisting officers and members in the effective discharge of their responsibilities, by advising the Council whether these arrangements are in place and operating effectively. '

This is achieved through the Internal Audit service providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

The Council's response to internal audit activity should lead to a strengthening of the control environment and, therefore contribute to the achievement of the organisation's objectives.

4. At the meeting in March 2019, the Audit and Governance Committee also approved the latest Internal Audit Strategy which set out the principles to be used to set the Annual Plan of Internal Audit work and how the purposes set out in the Charter will be met.
5. A draft plan of Internal Audit work for 2020/21 was therefore collated using these principles and giving consideration to the following:
 - (a) The Council's Corporate Strategy and key priorities, and internal policy changes and initiatives; including the objective to adopt a Vanguard approach to the delivery of services.
 - (b) Initiatives, changes and risks being highlighted through the Risk Management process and Medium-Term Financial Strategy; including the budgets proposed for 2020/21.
 - (c) Governance, fraud or risk issues identified through the year from work carried out by the internal audit or finance teams; including horizon scanning for emerging local

or national risks and themes.

- (d) Trends and outstanding recommendations identified on the audit recommendation database.
- (e) On-going liaison with the senior and service managers of the Council.

DRAFT ANNUAL AUDIT PLAN FOR 2020/21

6. The draft plan prepared for 2020/21 is shown in [Appendix A](#).
7. The format of the plan has been changed this year to specify the list of audits that will be monitored for delivery to support the 2020/21 Head of Audit's opinion, which is supplemented with a list of "reserve" work which will be covered if time allows. This is to allow some capacity in the team to be reserved for unplanned work and the impact of other governance work identified for the year such as individual risk assessments of the Local Plan and Solent Airport projects, which do not feature in the plan.
8. The following should be noted:
 - (a) **Level of Opinion Audit:** There is provision in the plan for 171 days of individual audit opinion work plus 15 days for the in-house team to support these audits. This meets the Strategy minimum of 180 days.
 - (b) **Number of Assignments:** There are 20 discrete pieces of work included in the plan, plus 5 in the reserve list, covering a variety of departments in the Council. The subjects covered represent approximately 15% (25/167) of the Audit Universe. There will also be reactive pieces of work completed in the year which will be used to support the Annual Audit Opinion. This meets the Strategy minimum of 20 audits.
 - (c) **Type of Audits:** The plan includes the breakdown of the types of audit set out in the Strategy including 3 Fundamental Systems and 5 High Risk Audits.

RESOURCING THE PLAN

9. Resources available through the partnership with Portsmouth City Council will be used to deliver the majority of the Opinion work to ensure independence and will also be used for assist with at least one of the Wider pieces of work (Targeted Assistance with recommendation implementation). There are no audits in the plan this year that are appropriate for sharing coverage with Gosport Borough Council.
10. The rest of the wider work will be delivered by a mixture of in-house audit and finance resources and by collaborative working with other teams in the Council.
11. However, it should be noted that since the plan was initially set, the Covid-19 pandemic has impacted on the resources available to the service due to: a) reduced productivity from the audit team arising from changes in working arrangements during lock down; b) time lost due to the need to allow auditees to prioritise their pandemic responses over audits and; c) the need to divert auditor resources to assist with the Council responses to the pandemic at both Fareham BC and Portsmouth CC.
12. The use of the Reserve list of work will help us to manage the reduction in resources for the year, and the service has been reviewing "non-plan" work to identify what can be

stopped / slipped to help the service catch upon the delivery of the plan. Some of these proposals are covered in the Annual Report of the Committee.

RISK ASSESSMENT

13. The Council has a statutory requirement to carry out internal audits of services and systems, with sufficient coverage to allow an annual Head of Audit's Opinion to be produced. Delivery of this plan will therefore mitigate the risk of non-compliance.

Appendices

Appendix A – Draft Audit Plan 2020/21

Background Papers: None

Reference Papers:

Chartered Institute of Public Finance and Accountancy (CIPFA) 2017 – Public Sector Internal Audit Standards.

Report to Audit and Governance Committee on the Internal Audit Strategy and Internal Audit Charter March 2019

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)

APPENDIX A - Draft Internal Audit Plan 2020/21

	Type	Title	Dept-Lead Service	Days	Reason for Inclusion in Plan
	OPINION WORK				
1	Fundamental Systems	Benefits	H-Housing	15	Fundamental system - last opinion given 2017/18
2	Fundamental Systems	Income Management	H-Operational Finance	15	Fundamental system - last opinion given 2017/18
3	Fundamental Systems	Accounts Receivable	H-Operational Finance	15	Fundamental system - last opinion given 2017/18
4	Services and Systems - High Risk	Democratic Representation and Management (including members allowances and expenses)	F-Democratic Services	12	New high risk audit based on Gross Expenditure - last opinion given 2013/14
5	Services and Systems - High Risk	Household waste collection	T-Street Scene	10	High risk audit - last opinion given 2015/16
6	Services and Systems - High Risk	Recycling	T-Street Scene	8	High risk audit - last opinion given 2015/16
7	Services and Systems - High Risk	Parking Enforcement	L-Environmental Health and Parking	10	High risk audit - last opinion given 2015/16
8	Services and Systems - High Risk	Daedalus Operating Contracts	P-Property	15	High risk audit - opinion outstanding from 2015/16 - refreshed audit needed with the additional testing
9	Computer - fundamental system	Benefits and local tax computer systems	H-Housing / F-ICT	15	IT systems supporting a fundamental system - last opinion given 2010/11
10	Computer - key system	Internet and Email access	F-ICT	12	Key IT systems - last opinion given 2008/9
11	Services and Systems - Other	Service charges and recharges - council tenants	H-Housing	15	New rolling programme of testing to ensure that the Council is complying with the latest relevant legislation in relation to services charges, and that other recharge processes are robust.
12	Corporate, Specialist, Governance & Risk	Construction Industry Tax Scheme (CIS)	H-Operational Finance	5	Specialist audit - last opinion given in 2008/9

13	Limited Opinion Follow Up	Cloud	F-ICT	8	Follow up of limited opinion audit 2018/19
14	Limited Opinion Follow Up	Tenancy Management	H-Housing	5	Follow up of limited opinion audit 2019/20
15	Limited Opinion Follow Up	Safeguarding	L-Environmental Health and Parking	5	Follow up of limited opinion audit 2019/20
16	Limited Opinion Follow Up	Housing Rents	H-Housing	6	Follow up of limited opinion audit 2019/20
	In-house support			15	
Total Opinion Work				186	
WIDER WORK					
17	Corporate Assurance Work	Targeted Assistance with Recommendation Implementation	Cross Cutting		To assist services with implementation of recommendations each year. Subjects for 2020/21 likely to focus on contract deeds management and asset disposal.
18	Corporate / Contract - joint working	Contract Management	F-Democratic Services		Audit brought forward from 2018/19 to assist with the review of contract management arrangements and the requirements in the Procurement and Contract Procedure Rules
19	Certification	Disabled Facilities Grants - grant certification 2019/20	L-Environmental Health		Possible certification request from Ministry of Housing, Communities and Local Government
20	Thematic review	Social Media Monitoring by services	Cross Cutting		Proactive discussions with services and testing to ensure that the Council complies with the Chief Surveillance Commissioners recommendation in 2016
RESERVE WORK IF TIME ALLOWS					
1	Fundamental Systems (OPINION)	Vehicle Maintenance ordering, invoice management and stock control	T-Street Scene	15	Fundamental Process in High Risk service - a large number of previous recommendations still to be closed down
2	Services and Systems - Other (OPINION)	Car loans	H-Operational Finance	5	Minor system last opinion given 2002/03 (for apprentice to lead)
3	Limited Opinion Follow Up	Housing Voids	H-Housing	5	Follow up of limited opinion audit given late in 2019/20

4	Corporate Assurance Work (WIDER)	Pre-application advice cost comparison to income	P-Development Management	5	To assist service in verifying the costs associated with providing pre-planning application advice compared to the charges made.
5	Corporate Assurance Work (WIDER)	Annual Testing of Procurement Decisions	Cross Cutting		New requirement in the Procurement and Contract Procedure Rules to carry out testing on spend above and below the significant value threshold to feed into the annual assurance to the Chief Executives Assurance Group. Will also include invoice testing.
	Non specified PCC contingency			10	