

# INTERNAL AUDIT CHARTER & DRAFT AUDIT PLAN 20/21

Governance & Audit Committee 4th March 2020

Report Author	Head of the Audit Partnership: Christine Parker
Portfolio Holder	Cllr Rob Yates; Cabinet Member for Financial Services & Estates
Status	For Information
Classification:	Unrestricted
Key Decision	No

## Executive Summary:

This report presents the Audit Charter for approval and sets out the proposed Internal Audit Plan for 2020/21 detailing a breakdown of audits and an analysis of available days.

## Recommendation(s):

That Members approve to adopt the Internal Audit Charter for delivery of the internal audit service for the next three years.

That Members approve the Council's Internal Audit Plan for 2020/21

## CORPORATE IMPLICATIONS

<b>Financial and Value for Money</b>	There are no financial implications arising directly from this report. The costs of the audit work are being met from the Financial Services 2019-20 budgets.
<b>Legal</b>	The Council is required by statute (under the Accounts and Audit Regulations and section 151 of the Local Government Act 1972) to have an adequate and effective internal audit function.
<b>Corporate</b>	Under the Local Code of Corporate Governance the Council is committed to comply with requirements for the independent review of the financial and operational reporting processes, through the external audit and inspection processes, and satisfactory arrangements for internal audit.
<b>Equalities Act 2010 &amp; Public Sector Equality Duty</b>	Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.

	Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.	
	Please indicate which aim is relevant to the report.	
	Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,	
	Advance equality of opportunity between people who share a protected characteristic and people who do not share it	
	Foster good relations between people who share a protected characteristic and people who do not share it.	
<i>There are no equity or equalities issues arising from this report.</i>		

<b>CORPORATE PRIORITIES (tick those relevant) ✓</b>	
A clean and welcoming Environment	
Promoting inward investment and job creation	
Supporting neighbourhoods	

<b>CORPORATE VALUES (tick those relevant) ✓</b>	
Delivering value for money	X
Supporting the Workforce	
Promoting open communications	X

## 1.0 Introduction and Background

- 1.1 The purpose of the Council's Governance and Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 1.2 In accordance with current best practice, the Governance and Audit Committee should "review and assess the annual internal audit work plan". The purpose of this report is help the Committee assess whether the East Kent Audit Partnership has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with the professional standards for Internal Auditors.

## 2.0 Audit Mission & Charter.

- 2.1 The Audit Mission is a simple high-level statement setting out the objectives for the service, please see attached as Annex A.
- 2.2 The Audit Charter is an important document setting out the expectations of how the Internal Audit function will be delivered. Not only does having a Charter and keeping it up to date assist the Council in complying with best practice, but by considering the

Audit Charter, the Governance and Audit Committee is also demonstrating its effectiveness by ensuring that these mechanisms are in place and are working effectively.

- 2.3 The Audit Charter establishes the purpose, authority, objectives and responsibility of the East Kent Audit Partnership, it goes on to set out the Terms of Reference, Organisational Relationships and Independence, Competence and Standards of Auditors, the Audit Process and in providing an Internal Audit function to the partner councils; as well as the resources required across the four partnership sites and details how the resource requirements will be met.
- 2.4 The Audit Charter is attached as Annex B to this report. It is essentially the 'Why' and 'How' the East Kent Audit Partnership will provide the Internal Audit Service. It is a document that does not materially change from year to year and consequently it was suggested last year that this be approved for the next three years (to 31<sup>st</sup> March 2023) with the caveat that should any significant changes be required a revised Charter will be presented for consideration. Having undertaken a detailed self-assessment against the revised Public Sector Internal Audit Standards (PSIAS) minor aspects of the Charter were refreshed, consequently the attached version contains the tracked changes as showing, so that the areas updated can be easily identified. It is proposed again, that subject to there being any future changes to the standard having a knock on effect to the Charter, this document will next be brought back to this Committee in March 2023.

### **3.0 2020/21 Risk Based Internal Audit Plan.**

- 3.1 The Audit Plan for the year 2020 to 2021 is attached as Annex C and has the main components to support the Audit Charter. The plan is produced in accordance with professional guidance, including the Public Sector Internal Audit Standards (PISAS). A draft risk based plan is produced from an audit software database (APACE) maintained by the EKAP which records our risk assessments on each service area based upon previous audit experience, criticality, financial risk, risk of fraud and corruption etc. Then amendments have been made following discussions with senior management, taking account of any changes within the Council over the last 12 months, and foreseen changes over the next.
- 3.2 The plan has then been further modified to reflect emerging risks and opportunities identified by the Chief Executive, Directors, and the links to the Council's Corporate Plan and Corporate Risk Register. This methodology ensures that audit resources are targeted to the areas where the work of Internal Audit will be most effective in improving internal controls, the efficiency of service delivery and to facilitate the effective management of identified risks.
- 3.3 Furthermore, wider risks are considered, by keeping abreast of national issues and advice from the auditing profession / firms. Over the last year, incidents of money laundering, sexual misconduct at the workplace, fraud, cyberattacks, and data privacy scandals grabbed news headlines, and provided a reminder of why effective

governance, risk management, and compliance are so important. For this year we have considered the inclusion of the top ten Institute of Internal Audit identified risks;

- 1 **Data Management & Privacy Risk** – the data protection regulations that come in to being in May 2018 affect information governance, and audits have been built into the plan to provide assurance on these risks.
- 2 **Cyber Risk** – As new cyber-attacks develop, so too do cyber resilience efforts need to be stepped up. We have some ICT reviews built into the EKS audit plan to support the network and digital environment.
- 3 **Brexit** – with more negotiations to come post 31<sup>st</sup> January 2020 regarding the trade relationship between the UK and Europe; we have considered this risk and determined that it is too early for us to include anything specific relating to Brexit in the 20-21 audit plan, also taking into account all the collective work the Council has been undertaking with its partners to date.
- 4 **Third Party Risk** – the non-performance of contractors and suppliers is always a risk to the Council, just about everything we do today has some level of third-party involvement, whether we are aware of it or not. Not only risks of third parties gaining access to sensitive data, we are consequently proposing reviews of Contract Management in the plan.
- 5 **Conduct & Culture Risks** – this risk is an emerging area for assurance, only 30% of bodies have audited this despite honesty and personal conduct being behind several big national (sector wide) headlines. Reviews that we have typically carried out in this area include Gifts and Hospitality, Anti-fraud & corruption, whistleblowing, Ethics and compliance with Codes of Conduct. We will keep a watching brief on developments for future consideration, noting that all of our work contributes to the assurances given in the Annual Governance Statement.
- 6 **Climate Change Risk**- organisations are facing a broad range of risks, based in a rapidly changing and evolving area; new rules and legislation are to be anticipated, weaving climate change elements into relevant key risk areas is being considered for the 20/21 plan.
- 7 **Digital Transformation Risk** – the Council is undertaking various development and digital projects, we have specifically considered this risk, it has been agreed that provision for EKAP to become involved at key stages of projects will be agreed on a case by case basis. Key areas to keep abreast of are 'big data', data mining and cloud computing.
- 8 **Workforce Risk** – Hiring and retaining the talent needed has been considered and a review is not proposed for 20/21.
- 9 **Regulatory Risk**– this is a constant risk as the external environment throws new laws at a council and it has to respond. New legislation is something we

consider for each area within the audit plan, and thus a separate 'cross cutting' review has not been proposed for 20/21.

- 10 **Fraud** – is an ongoing risk assessed in every area of activity that the Council undertakes. We have given due consideration in assessing the Counter Fraud Framework within which the Council operates.
- 3.4 There are insufficient audit resources to review all areas of activity each year. Consequently, the plan is based upon a formal risk assessment that seeks to ensure that all areas of the Council's operations are reviewed within a strategic cycle of audits. In order to provide Members with assurance that internal audit resources are sufficient to give effective coverage across all areas of the Authority's operations, a strategic plan has been included.
- 3.5 To comply with the best practice, the agreed audit plan should cover a fixed period of no more than 1 year. Members are therefore being asked to approve the 2021/21 plan at the present time, and the future years are shown as indicative plans only, to provide Members with assurance that internal audit resources are sufficient to provide effective coverage across all areas of the Authority's operations within a rolling cycle.
- 3.6 The plan has been prepared in consultation with the Directors and the Council's Deputy Chief Executive and Statutory s.151 Officer. The plan is also designed to meet the requirements expected by the External Auditors for ensuring key controls are in place for its fundamental systems. This Committee is also part of the consultation process, and its views on the plan of work for 2020/21 are sought to ensure that the Council has an effective internal audit of its activities and Members receive the level of assurance they require to be able to place assurance on the annual governance statement.
- 3.7 The risk assessment and consultation to date has resulted in;
- 78% Core Assurance Projects- the main Audit Programme
  - 0% Fraud Work – fraud awareness, reactive work and investigating potential irregularities
  - 0% Corporate Risk – testing the robustness of corporate risk mitigating action
  - 22% Other Productive Work – Corporate meetings, follow up, general advice, liaison
- Total number of audits 27.

For 2020/21 the days available for carrying out audit is 285 days. When compared to the resources available and working on the basis that the highest risk areas should be reviewed as a priority, the EKAP has sufficient resources to review all of the high risk areas and all of the medium risk areas this equates to 27 audits.

#### 4.0 **Benchmarking the level of Internal Audit Provision.**

- 4.1 Members should have regard to how audit resources within the Council compare to other similar organisations when considering the adequacy and effectiveness of the internal audit plan. The results of benchmarking show that the average number of internal audit days provided by district councils within Kent is circa 400 days annum. The audit plan of Dover District Council of 285 days plus their share of the EKS and East Kent Housing audit plans totals 380. The Thanet plan is therefore 5% less well-resourced than the Kent average.

#### 5.0 **Head of Internal Audit Opinion of the 2020/21 Internal Audit Plan.**

- 5.1 This report is presented to Members by the Council's Deputy Chief Executive whose s.151 responsibility is to maintain an effective internal audit plan. In the interests of openness and transparency and in order to enable Members to make an informed decision on the internal audit plan presented for their approval consideration should also be given to the opinion of the Head of Internal Audit on the effectiveness of the plan.
- 5.2 It is the professional opinion of the Head of the East Kent Audit Partnership that the draft 2020/21 internal plan presented for Members consideration will allow for an opinion to be given on the Council's key risk areas and systems. This should be sufficient coverage to inform the Annual Governance Statement. The Head of the East Kent Audit Partnership recommends that Members approve the 2020/21 internal audit plan as drafted.

#### 6.0 **Options**

- 6.1 That Members approve the Audit Charter and 2020/21 Internal Audit Plan as drafted..
- 6.2 That Members make suggested amendments to and approve the 2020/21 Internal Audit Plan and Audit Charter.

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Reporting to:	Chris Blundell; Head of Financial Services (Deputy S151 Officer ) Tim Willis; Deputy Chief Executive (S151 Officer)

#### **Annex List**

Annex 1	Audit Mission
Annex 2	EKAP Internal Audit Charter
Annex 3	Thanet District Council draft 2020/21 Internal Audit Plan

## Background Papers

Title	Details of where to access copy
Former Internal Audit Annual Plan 2019-20	Previous plan presented to and approved in March 2019 at Governance and Audit Committee meeting
Former Audit Charter	Previously presented to and approved at March 2017 Governance and Audit Committee meetings.

## Corporate Consultation

<b>Finance</b>	Chris Blundell; Head of Financial Services (Deputy S151 Officer ) Tim Willis (Deputy Chief Executive & S151 Officer)
<b>Legal</b>	Tim Howes, Director of Corporate Governance