

DRAFT AUDIT PLAN 2021/22

Governance & Audit Committee 3 March 2021

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 proposed Internal Audit Plan for 2021/22 detailing a breakdown of audits and an analysis of available days.

Recommendation(s):

That Members approve the Council's Internal Audit Plan for 2021/22

CORPORATE IMPLICATIONS

Financial and Value for Money	<p>The attached internal audit plan excludes any audit/review of governance and culture to be delivered by East Kent Audit Partnership. If External Audit is asked to carry out the work by the Committee, it needs to be clear that Grant Thornton can do so, as it will be consultancy work by our external auditor. If External Audit cannot conclude an audit of governance and culture for the G&A Committee early in 2021-22, then the Committee may wish to request such an audit, commissioned by EKAP.</p> <p>The costs of the audit work will be met from the Financial Services 2021-22 budgets.</p>
Legal	<p>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.</p>
Corporate	<p>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.</p>
Equalities Act 2010 & Public	<p>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</p>

Sector Equality Duty	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>		

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

CORPORATE VALUES (tick those relevant) ✓	
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 2021/22 Risk Based Internal Audit Plan.

- 2.1 The Audit Plan for the year 2021 to 2022 is attached as Annex A 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.
- 2.2 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.
- 2.3 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 **Information Security in the Expanded Work Environment** - 2020 brought with it a unique cyber and data security challenge. In addition to known risks surrounding data management, the GDPR data protection regulations and wider information governance, cyber-attacks continued to develop, new risks emerged resulting from the rapid widespread shift to homeworking amid national lockdowns. Lacking personal interaction, staff can be more susceptible to social engineering ploys as they cannot immediately sense-check emails with nearby co-workers. Given that remote and flexible working arrangements are likely to be in place going forward, it is more important than ever that cyber defences are robust and adaptable and that the information security culture is promoted throughout every level of the Council to raise awareness and ensure the integrity of staff behaviour. We have some ICT reviews built into the EKS audit plan to support the network and digital environment, and Information Governance reviews or consultancy work is also planned.
- 2 **Regulatory Risk** – The risk regarding the impact recent operational disruptions have had on the work of compliance and the ability of the Council operations to remain compliant or, the extent to which the Council has been capable of maintaining acceptable standards of compliance amid the shake-up of operations and control systems during the pandemic. This also applies to the reorganisation of the business as staff return to the office and working arrangements are adjusted to whatever “new normal” the Council will determine best suits it and its workforce. It is not an EKAP function to ensure compliance, but it is considered as part of each review in the plan. ‘New legislation’ is a risk factor we consider for each area within the audit plan, and thus a separate ‘cross cutting’ review has not been proposed for 21/22. We have considered Brexit risk and determined not to include anything specific for EKAP relating to Brexit in the 21-22 audit plan,

also considering all the collective work the Council has been undertaking with its partners to date.

- 3 **Digital Transformation Risk** – the Council is undertaking various development and digital projects, in considering 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. The events of 2020 have magnified the digital imperative, making such transformations a more pressing priority by driving home the value of digital products and services and the flexibility Councils can achieve by digitalising their operations. Yet the pandemic also may have frustrated digital progress, innovation and transformation initiatives by making them more complex and challenging. Key areas to keep abreast of are ‘big data’, data mining and cloud computing.
- 4 **Financial, Capital and Sustainability Risk** - Even companies with strong balance sheets (i.e. high levels of cash versus low liabilities) will have to consider their financial sustainability in a potentially challenging trading environment through 2021. The world may be facing the deepest recession in living memory and the recovery may take a long time. Therefore, there is pressure on Councils to use cash wisely and cut costs where necessary. The longer-term impact of these risks is recognised in the Corporate Risk Register and through its financial modelling and MTPF.
- 5 **Workforce Risk** – The Council through its EKHR function also faces the challenge of creating safe working environments and ensuring the wellbeing of workers in the face of potential coronavirus resurgences and the psychological impact months of isolation may have had. Diversity is another key human capital risk that organisations need to be conscious of. The Black Lives Matter movement has put social equality at the centre of public debate and organisations will need to ensure that their hiring and pay policies are fair, representative and do not unintentionally or unconsciously bias against particular demographics. The EKHR reviews come under the EKS plan which is included.
- 6 **Disaster & Crisis Management Risks** - One of the biggest lessons to take from 2020 is the importance of crisis preparedness including the resilience and adaptability of the Council. Whilst there are business continuity plans (BCPs) in place, these are more likely to have accounted for short-lived events like power or network outages, earthquakes and data breaches. The pandemic has set a new precedent in crisis management by showing the extensive and simultaneous impact that global events can have. BCPs must address operational resiliency by identifying and stress testing key processes and assets including the availability of employees and continuity of supply chains to deliver services. This area is next scheduled for review in 22-23.
- 7 **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. The Council should be aware of weaknesses, pressure points and potential bottlenecks in its supply chains, and be able to evidence that supplier/ contractor insolvency risk is being sufficiently managed. We have also considered risks of third parties gaining access to sensitive data, we are proposing reviews of Contract Management in the 21-22 plan.
- 8 **Fraud, Bribery and Financial Crime Risk**– Exploitation of operational and economic disruption is an ongoing risk assessed in every area of activity that the Council undertakes. There is an increased risk in ploys to capitalise on the pandemic including grant fraud and money laundering. Additionally, the effectiveness of the control environment may have been weakened by the

transition to remote working and reduced or limited access to parts of the business and its resources. We have given due consideration in assessing the Counter Fraud Framework within which the Council operates, there is not a cross cutting review of Counter Fraud proposed, rather to consider this risk within each planned review.

- 9 **Climate Change Risk**- organisations are facing a broad range of risks, based in a rapidly changing and evolving area it has been identified as potentially being the next Global Crisis; new rules and legislation are to be anticipated, weaving climate change elements into relevant key risk areas was included in the 20/21 plan - Quarter 4.
- 10 **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 have considered this area for inclusion and to avoid any duplication we will seek to place reliance on work to be conducted by External Audit, particularly as all of our work contributes to the assurances given in the Annual Governance Statement.

2.4 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.

2.5 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 2021/22 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.

2.6 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 2021/22 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.

2.7 The risk assessment and consultation to date has resulted in;

77% Core Assurance Projects- the main Audit Programme

0% Fraud Work – fraud awareness, reactive work and investigating potential irregularities

8% Corporate Risk – testing the robustness of corporate risk mitigating action

15% Other Productive Work – Corporate meetings, follow up, general advice, liaison

Total number of audits 27.

For 2021/22 the days available for carrying out audit is 320 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.

3.0 Benchmarking the level of Internal Audit Provision.

3.1 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 Thanet District Council of 320 days plus their share of the EKS Plan totals 380. The Thanet plan is therefore 5% less well-resourced than the Kent average.

4.0 Head of Internal Audit Opinion of the 2021/22 Internal Audit Plan.

4.1 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.

4.2 It is the professional opinion of the Head of the East Kent Audit Partnership that the draft 2021/22 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 2021/22 internal audit plan as drafted.

5.0 Options

5.1 That Members approve the 2021/22 Internal Audit Plan as drafted.

5.2 That Members make suggested amendments to and approve the 2021/22 Internal Audit Plan.

Contact Officer:	Christine Parker, Head of the Audit Partnership, Ext. 42160 Simon Webb, Deputy Head of Audit, Ext 7189
Reporting to:	Chris Blundell; Head of Financial Services (Deputy S151 Officer)

	Tim Willis; Deputy Chief Executive (S151 Officer)
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Annex List

Annex 1	Thanet District Council Draft 2021/22 Internal Audit Plan
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Background Papers

Title	Details of where to access copy
Former Internal Audit Annual Plan 2020-21	Previous plan presented to and approved in March 2020 at Governance and Audit Committee meeting
Audit Charter & Mission	Previously presented to and approved at March 2020 Governance and Audit Committee meetings.

Corporate Consultation

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