

<b>Subject:</b>	Internal Audit Annual Audit Plan 2020/21	<b>Status:</b>	For Publication
<b>Report to:</b>	Audit and Accounts Committee	<b>Date:</b>	28 <sup>th</sup> July 2020
<b>Report of:</b>	Head of Internal Audit (Internal Audit Service)	<b>Portfolio Holder:</b>	Resources
<b>Key Decision:</b>	<input type="checkbox"/> Forward Plan <input type="checkbox"/>	General Exception <input type="checkbox"/>	Special Urgency <input type="checkbox"/>
<b>Equality Impact Assessment:</b>	Required:	No	Attached: No
<b>Biodiversity Impact Assessment</b>	Required:	No	Attached: No
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<b>1.</b>	<b>RECOMMENDATION(S)</b>
1.1	The committee are asked to consider and approve the annual internal audit plan for 2020/21.

## 2. PURPOSE OF REPORT

2.1 The Audit and Accounts Committee's terms of reference require it to advise the council on the planned activity and results of internal audit.

## 3. BACKGROUND AND OPTIONS

3.1 Definition of internal auditing

"Internal auditing is 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."

"The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control." The Institute of Internal Auditors,

Public Sector Internal Audit Standards, 2015

Relevant regulations

Internal audit: "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance." Regulation 5. (1)

Review of internal control system: "A relevant authority must, each financial year (a) conduct a review of the effectiveness of the system of internal control ... and (b) prepare an annual governance statement." Regulation 6. (1)

Accounts and Audit Regulations 2015

## 4. RISK

4.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:

- The responsibility for implementing, maintaining and reviewing the system of internal control rests with the council, but the process by which the effectiveness of its system of internal control is reviewed and the governance statement is made includes

obtaining assurances on the effectiveness of key controls. In practice, these assurances will be substantially drawn from the work of internal audit. The audit plan is therefore focused on providing these assurances to the chief executive and leader of the council who are jointly required to sign the annual governance statement

**5. FINANCE**

5.1 Any financial implications are commented upon in the report.

**6. LEGAL**

6.1 Any legal implications are commented upon in the report.

**7. POLICY AND EQUALITIES IMPLICATIONS**

7.1 Reported findings have been discussed and agreed, including management responses to the recommendations, with respective service managers and heads of service prior to reporting.

**8. CONCLUSION**

8.1 The plan is focused on an assessment of the risks to the achievement of the council's objectives, and the provision of assurance that the actions planned to mitigate these risks are adequate and effective.

No background papers

**Rossendale Borough Council**  
**Internal Audit Service**  
**Internal Audit Annual Plan 2020/21**



## 1. Introduction

- 1.1. This report sets out the internal audit plan for 2020/21. The Audit and Accounts Committee is asked to consider and approve it under its terms of reference.
- 1.2. The plan originally agreed with senior managers at the start of 2020 was for 200 days, but has been significantly reduced due to the Covid pandemic and lockdown. We have now agreed with managers to deliver a shorter, 105 day plan over the last six months of the year. This gives coverage over all control areas and is sufficient to support an annual assurance opinion for 2020/21.
- 1.3. The plan is supported by the Internal Audit Strategy for 2020/21 which sets out the relevant statutory and professional requirements, the planning principles and inputs to the process, and the audit approach employed by the Internal Audit Service. The plan is also supported by a service charter, which defines the purpose, authority, scope and responsibility of internal audit activity, establishes the service's position within the organisation, and authorises access to all relevant records, personnel and physical properties.
- 1.4. The Internal Audit Service aims to achieve the core principles set out by the Chartered Institute of Internal Auditors and reiterated in Public Sector Internal Audit Standards, which are that the service:
  - Demonstrates integrity
  - Demonstrates competence and due professional care
  - Is objective and free from undue influence (independent)
  - Aligns with the strategies, objectives, and risks of the organisation
  - Is appropriately positioned and adequately resourced
  - Demonstrates quality and continuous improvement
  - Communicates effectively
  - Provides risk-based assurance
  - Is insightful, proactive, and future-focused
  - Promotes organisational improvement

## 2. The purpose of the internal audit plan

- 2.1. The council is responsible for a wide range of services across the borough, and its members and senior managers should be aware of the risks to achieving their service objectives and the risks inherent in their work. These risks should be managed by controls designed to reduce the risk to a corporately acceptable level. The chief executive, Audit and Accounts Committee and ultimately the council need assurance that these controls have been adequately designed and are operating effectively. At the end

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of the financial year the chief executive and the leader of the council will jointly sign the annual governance statement (AGS) published with the council's financial statements.

- 2.2. The head of internal audit is required by professional standards to give an annual assurance opinion on governance, risk management and control, over the adequacy and effectiveness of the management of risks to council objectives. The Audit and Accounts Committee's terms of reference require it to consider this annual opinion, and review and approve the AGS. The Committee should therefore consider and approve an internal audit plan which provides the assurance the council, committee, leader and chief executive need. We have discussed this plan with the council's senior management team.
- 2.3. The overall opinion covers twelve months and supporting evidence must relate to controls operating in that period, so the plan addresses work for one year but may make projections into future audit needs. The work will rarely be fully complete at the end of the year but will be sufficiently complete and reported by the time the council prepares its AGS shortly after the year end.

### **3. Obtaining the evidence to support an overall opinion for 2020/21**

- 3.1. An internal audit plan designed to provide the evidence necessary to support an opinion on governance, risk management and control should arguably cover:
  - Key components of each part of the opinion: aspects of the council's governance, risk management and control framework.
  - Sufficient controls across the council's operations, so that a fair assessment may be made across the organisation.
  - The controls that mitigate the council's most significant risks to an acceptable level, and particularly those that operate most widely across the council.
  - The actions being taken to develop improved controls in the areas of greatest unmitigated risk.
- 3.2. It will therefore be necessary as a minimum to audit aspects of the council's governance and risk management processes, as well as a range of control processes. Information available from less formal sources may also inform the overall opinion.
- 3.3. A control framework applicable to the council's governance, risk management and control is shown in the diagram below. The internal audit plan is designed to address, proportionately, the coverage required across this controls framework for the whole organisation. It addresses each of the areas of the overall opinion, each of the areas of control set out in the control framework, and each of the major areas of service delivery. It is not intended that the auditors will follow up all of the action plans agreed by managers as a result of audit work over previous years but, subject to further discussion with the council's senior managers, managers' own assessment of the action they have taken will be reported to the committee.

A framework for governance, risk management and control				
<b>Governance and democratic oversight</b>				
Corporate governance framework			Democratic processes	
<b>Business effectiveness</b>				
Risk management	Performance monitoring and management		Organisational design	Working in partnership
<b>Service delivery</b>				
Customer services		Operations and environmental health		Business
Benefits administration	Revenue collection	Refuse collection and recycling	Parks and open spaces	Housing Regeneration
Leisure services		Street sweeping	Planning	Licensing
<b>Service support</b>				
Contract monitoring and management			Public interface	
<b>Business processes</b>				
Financial processes		ICT	Facilities management	Human resources
Investment	Payroll	Procurement		Business continuity

#### 4. The context of the audit work for the year

4.1. The single most influential factor on the year's work has been the coronavirus pandemic and the council's response to it. This has necessitated changes to many of the council's services, systems and processes, and to the way staff operate. It has also meant that internal audit work has been suspended for the first quarter and possibly for most of the first half of the year, and therefore that fewer than normal internal audit resources are available for the current year. The Covid lockdown has had a significant impact on the 200 day plan originally agreed with senior managers, and we have now agreed with the Chief Executive a revised 105 day plan to be delivered in the last six months of the year without significantly distracting the council's teams from resuming normal their activities. The audits selected cover all control areas and should be sufficient to provide an annual assurance opinion at year end. The audits removed from the plan will be deferred to 20221/22 (see Appendix A). In view of this, the revised audit plan has

been constructed to cover as much of the council's operations, services, systems and process as possible including further work by Mersey Internal Audit Agency of information and technology risks, which should help inform a refreshed digital strategy.

- 4.2. We gave favourable overall assurance on the council's frameworks of governance, risk management and control in 2018/19 and will do so again for 2019/20, and have relied on previous audit assurances when compiling this revised plan. The plan has also been developed in the context of changes in the council's senior leadership team with the arrival of the new Chief Executive, the appointment of a new Director of Communities and Head of Finance and the departure of the long-serving Finance Manager.
- 4.3. We will inform the committee of any significant changes in planned work as we report progress during the year.

## **5. Deployment of audit resources**

- 5.1. This audit plan is based on estimated days input, and represents only a best estimate of audit resources. We will deploy our resources as effectively as possible, focussing on key areas of risk to achieve maximum benefit. The council also uses the County Council's contract with Mersey Internal Audit Agency (MIAA) for delivery of specialist IT audits.
- 5.2. While the annual plan enables managers and members to see the overall scope and value of the audit work, we will spend some time on completing a small number of audits that are being worked on into the following year. Additional work may be needed in-year at the expense of planned work, but the plan is sufficiently flexible to accommodate such changes and includes a number of contingency days. We will continually reassess resources against council priorities, amending the plan as required.

## **6. The assurance we will provide**

- 6.1. The assurance we will provide falls into four categories: substantial, moderate, limited and no assurance.
  - Substantial assurance: the framework of control is adequately designed and/ or effectively operated.
  - Moderate assurance: the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.
  - Limited assurance: there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.
  - No assurance: there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

## **7. The Internal Audit Service's responsibilities in relation to fraud and investigations**

- 7.1. In addition to our audit work, the Internal Audit Service provides some support to the council in managing fraud risk, specifically through the provision of advice in respect of instances of suspected fraud or impropriety and supporting the council's response to the National Fraud Initiative.

## 8. Proposed audit programme for 2020/21

8.1. 'Corp risk' refers to the risk on the corporate risk register which addresses the system being audited. 'Audit type' shows the nature of work to be carried out: '1' - phase one/ consultancy work; '2' - phase two/ compliance testing; '1+2' - full risk and control evaluation; 'F' - follow-up on implementation of previously agreed actions.

Controls assurance	Audit scope	Corp Risk	Audit Type	Days	Total Days
<b>Governance and democratic oversight</b>					
Rossendale Improvement Plan	Health-check of the current position following implementation of actions identified in the Rossendale Improvement Plan.	All	2	12	12
<b>Business effectiveness</b>					
IT service continuity (MIAA)	Audit of the control framework to ensure continuity of IT services.	2, 10	1+2	12	14
ICT Strategy (MIAA)	Follow up of implementation of 2019/20 audit actions.	10	F	2	
<b>Service delivery</b>					
Rossendale Together Barnfield	Audit of the effectiveness of partnership working in the RTB joint venture between Rossendale Borough Council and Barnfield Construction	6, 7	1+2	12	12
<b>Service support</b>					
Health and safety	Audit of the adequacy and effectiveness of corporate arrangements to ensure compliance with H&S legislation and good practice.	3	1+2	10	10
<b>Business processes (follow up and compliance)</b>					
Accounts payable	Compliance audits carried out annually to support annual audit opinion.	1	2	8	40
Accounts receivable		1	2	8	
General ledger, budget setting and monitoring	Testing established controls and follow-up of actions from previous year.	4	2	8	



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Controls assurance	Audit scope	Corp Risk	Audit Type	Days	Total Days
Income collection/ banking		1	2	8	
Payroll		1	2	8	
<b>Counter fraud and investigations</b>					
Operation of the National Fraud Initiative			N/A	4	6
Support to whistleblowing and counter fraud work			N/A	2	
<b>Other work</b>					
Internal Audit management	Management of service delivery including planning, audit quality management liaison, committee reporting and scheduling resources.		N/A	11	11
<b>Total resource for the council</b>					<b>105</b>

## Appendix A

The following audits were included on the 200 day audit plan agreed prior to the Covid lockdown, and we will consider them for delivery in 2021/22.

Controls assurance	Audit scope	Corp Risk	Audit Type	Days
<b>Governance and democratic oversight</b>				
Performance management	Audit of the adequacy and effectiveness of controls to ensure council performance is managed effectively, including data quality.	All	1+2	12
GDPR and information security compliance	Audit of service compliance with GDPR and/or information security policies following audit report on policy in January 2019.	10	1+2	12
LGA peer review	Internal Audit contribution to peer review (deferred from 2019/20).	All	1	1
Risk management	Follow up of implementation of 2019/20 audit actions.	All	F	1
Freedom of information and subject access requests	Follow up of implementation of 2019/20 audit actions.	11	F	1
<b>Business effectiveness</b>				
Critical application review (MIAA)	Audit of the technical controls in place to ensure effective operation of an revenues and benefits application	10	1+2	10
Digital Strategy	Follow up of implementation of 2019/20 audit actions.	10	F	1
Procurement	Follow up of implementation of 2019/20 audit actions.	4	F	1
<b>Service delivery</b>				
Planning controls	Audit of the adequacy and effectiveness of planning application controls including applicant support, consultation/ appeals and decision making.	6, 7	1+2	12
Community safety: CCTV regulatory compliance	Follow up of implementation of 2019/20 audit actions.	10	F	1

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Controls assurance	Audit scope	Corp Risk	Audit Type	Days
<b>Service support</b>				
Emergency planning and business continuity	Audit of the adequacy and effectiveness of corporate arrangements to ensure continuation of service delivery.	2	1+2	10
Purchase/ lease rental	Follow up of implementation of 2019/20 audit actions.	7	F	1
<b>Business processes (follow up and compliance)</b>				
Council tax	Compliance audits carried out annually to support annual audit opinion. Testing established controls and follow-up of actions from previous year.	1	2	8
Housing benefits		1	2	8
Business Rates/ NNDR		1	2	8