

Rother District Council

Report to	-	Audit and Standards Committee
Date	-	22 June 2020
Report of the	-	Executive Director
Subject	-	Internal Audit Plan Update

Recommendation: It be RESOLVED: That

- 1) the new approach to Internal Audit work (as set out in this report) be approved and adopted until such time as the impact of the COVID-19 pandemic on normal Council business is significantly reduced; and
 - 2) the Internal Audit Plan for 2020/21 (Quarter 2) be approved.
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Audit Manager: Gary Angell

Introduction

1. The Accounts and Audit Regulations 2015 require the Council to “undertake an effective Internal Audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. The proper practice for the Internal Audit Service is laid down in the Public Sector Internal Audit Standards (hereafter referred to as “the Standards”).
2. These standards are ordinarily met by establishing a risk-based plan at the start of the financial year to ensure that the priorities of the Internal Audit Service are consistent with the Council’s goals. However, the audit planning process has been disrupted this year by the coronavirus outbreak and the work plan originally proposed for 2020/21 has had to be abandoned.
3. A new plan is therefore required but changes to the risk landscape and working practices brought about by the COVID-19 pandemic, will necessitate a radical new approach, some aspects of which may differ from the one documented in the Internal Audit Charter. The new approach will however still need to provide sufficient coverage to enable the Audit Manager to produce an annual Internal Audit opinion on the Council’s control environment.
4. The Standards require that the Audit Manager communicate the plan and resource requirements, including significant interim changes, to senior management and the Audit and Standards Committee for review and approval. For this year at least, this will be done via quarterly Internal Audit Plan updates.

Challenges Facing Internal Audit

5. To date, the Council’s response to the COVID-19 pandemic has affected the Internal Audit team in the following ways:

- **Transition to home working** – Before the crisis, Internal Audit was almost entirely office-based and reliant on face-to-face contact for many aspects of its work. Home working has meant that new ways of working have had to be found;
 - **Reduced staff resources** – Not all of the auditors were initially able to work from home following the Government lockdown, but the team is now back to full capacity;
 - **Reduced productivity** – Internal Audit is not currently able to carry out routine audit work because officers responding to the pandemic have other, more pressing, issues to attend to;
 - **Reduced consultancy work** – The volume of audit advice and requests for consultancy work has dropped in the first quarter, probably as a result of officers having to deal with an unprecedented crisis at speed. Moving forward, management will be encouraged to use Internal Audit's expertise in risk and control matters in a collaborative way to effectively manage risk whilst at the same time maintaining operational efficiency;
 - **New risks have emerged** – The Council's risk profile has changed meaning that existing work plans are no longer viable. In the absence of an Audit Plan, auditors have spent most of their time on counter fraud duties rather than assurance work.
6. All of these factors have had a negative impact on the Internal Audit Service and will result in fewer audit reports being issued in the first quarter of 2020/21 than would normally be expected.
7. Given the level of change experienced across the Council, it is now more important than ever that Internal Audit find a way to continue to provide assurance and advice where it is needed most. A new, more flexible approach is therefore required to cope with the current unprecedented circumstances and to encourage greater management engagement.

New Approach

8. The Audit Manager gave a verbal update at the last meeting outlining his proposals for a new approach to Internal Audit work in 2020/21. These points are repeated below together with a progress update on each item.
- i. **Replace the 2020/21 Audit Plan with a quarterly plan** – This will cover both existing high-risk priorities and those that have emerged as a result of the COVID-19 crisis. A rolling six-month indicative plan would also accompany this, detailing other work which could be undertaken. All such plans will mainly be comprised of short audits and consultancy.

Progress – A revised work plan for quarter 2 has now been produced and is shown later in this report.
 - ii. **Devise a faster mechanism for reporting audit findings** – For example, this might mean reducing the scope of Internal Audit's work to focus only on the business-critical issues and reporting findings via less formal routes such as Microsoft Teams. Such an approach may also result in fewer conventional audit reports being issued during the year.

Progress – The Audit Manager is still considering the best method for achieving this and how the results of audit work will be reported to this committee.

- iii. **Remind management that Internal Audit are here to help** – Internal Audit needs to re-engage with management to ensure that it is kept informed about new and emerging risks and is given the opportunity to advise on changes of control. To encourage participation it will be emphasised that all normal audit work is suspended at present and that Internal Audit will be looking to help, rather than hinder, the Council's response to the COVID-19 pandemic.

Progress - The Audit Manager has written to all Heads of Service and Corporate Core managers and will follow up any that do not respond.

- iv. **Temporarily halt follow-up action** – All action to follow-up audit recommendations will cease for an initial three-month period, except where they concern business-critical issues or matters which could impact on the Council's response to the COVID-19 pandemic. The Audit Manager will review the situation again on 30 June 2020 and may extend this concession for a further period if he feels it is appropriate to do so.

Progress – There are no high risk audit recommendations outstanding at present. No follow-up action has therefore been undertaken this quarter.

- v. **Make allowances for potential redeployment** – Internal Audit is prepared to forego audit work for short periods of time to assist with the Council's response to the COVID-19 pandemic. Where this means stepping into roles and tasks that take away our audit independence, this will be reported to the Audit and Standards Committee and taken into consideration when providing our annual Internal Audit opinion.

Progress – An allowance for consultancy work and possible redeployment has been made in the new Audit Plan. Internal Audit is currently advising on the implementation of Discretionary Business Support Grants and expects to play a part in the verification of applications moving forward.

9. The above approach is only intended as a temporary measure to cope with the current situation, but it may well need to operate for the rest of this financial year and possibly beyond. That said, certain aspects (e.g. the option to work remotely, changes to reporting procedures, etc) will be retained and incorporated into any future approach if they prove to be effective.

Audit Plan 2020/21

10. This year's plan should have been based on the second year of a three-year Strategic Audit Plan which was approved by Members in March 2019. However, the risks Internal Audit will now need to focus on for the rest of the year are expected to be very different from the ones previously predicted. It has therefore been necessary to devise a new plan which will better meet the immediate needs of the Council.

11. At present, it is only possible to provide an outline of the audit work that will be undertaken during the year because the Audit Manager is still in the process of gathering information on (a) the key risk areas that have emerged from the COVID-19 pandemic, and (b) the pressure points and challenges facing the Council over the next 3 to 6 months. Three-monthly plans will therefore be presented to this Committee each quarter until the effects of the current crisis have abated.
12. The Audit Plan for the second quarter of 2020/21 is shown in Appendix A. This sets out Internal Audit's work programme to obtain assurance on the Council's control environment.
13. Apart from the plan now being produced on a quarterly, rather than annual, basis, Members will also note two other significant departures from previous practice. Firstly, no distinction is made between priority audits and consultancy work. Both are currently listed in the same section. This is because it is unclear at this stage how much work each task will involve. Those that require more work will be treated as short, focused audits. Secondly, none of the items listed in the Priority Audits/Consultancy Work section are given individual time allocations. This is for the same reason. The total time available for all work in this section is however shown in the plan. The Internal Audit team's success or otherwise of completing the work within this time target will be reported at the next meeting.
14. A further development this quarter is the introduction of an Indicative Plan for the next six month period. This is attached in Appendix B. It provides a preview of the proposed work programme for later in the year and is reported here to allow Members to see what other audit work is also on the horizon.
15. Both the quarterly plan and indicative plan contained in this report have been reviewed by the Strategic Management Team and are supported by them. These plans will however need to be kept under review by the Audit Manager and may need to change at short notice if new risks emerge. Members will be notified of any changes made in future updates to this Committee.

Resources

16. Best practice dictates that the plan should meet the audit needs of the organisation, regardless of the level of resources available to deliver it. If the days required exceed the days available, then it is for senior management to decide whether additional resources should be made available or whether they are content to accept the risks involved of not carrying out some of the reviews, and state which reviews should be omitted.
17. Owing to the difficulty experienced in formulating a definitive work plan in the midst of the COVID-19 pandemic, it has not been possible to properly quantify the audit needs at this time. It has therefore had to be assumed that the existing staff resources will be sufficient. This is not ideal, but the situation will be kept under review and the Audit and Standards Committee will be informed if it later transpires that this is not the case.
18. What is known, is that the coronavirus outbreak has already had a negative impact on audit staff resources available in the first quarter of 2020/21 and the Internal Audit team has only been back to full strength since 20 May 2020.

However, with all three auditors now able to work from home, the team should be in a much stronger position to carry out the work planned in Quarter 2.

19. The Internal Audit resources for 2020/21 are shown in Appendix C. This also includes an estimate of the resources available in each quarter. This provides for 124 days of audit work in Quarter 2.

Reporting Arrangements

20. Progress against the plan will be monitored by the Audit Manager and reported to the Audit and Standards Committee at the next meeting.

Malcolm Johnston
Executive Director

Risk Assessment Statement

A strong, independent and well supported Internal Audit function ensures that the Council does not suffer from poor internal control systems.

AUDIT PLAN 2020/21 (Quarter 2)

01/07/20 to 30/09/20

PRIORITY AUDITS/CONSULTANCY WORK	DAYS
Business Support Grants - Post Payment Verification checks	
COVID-19 Health & Safety Risks	
COVID-19 Risk Management	
Cyber Security and Remote Working	
Exit Strategy for the Return to Business As Usual	
Joint Waste Contract - Central Admin	
Protection of Car Park Cash Income	
Protection of Community Infrastructure Levy Income	
Protection of Estates Income	
TOTAL	90

COUNTER FRAUD WORK	DAYS
Fraud Analysis & Referrals	10
NFI Coordination & Review	5
TOTAL	15

OTHER WORK	DAYS
Audit Advice/Special Investigations	16
Committee Representation and Training	2
Liaison with External Audit	1
Recommendation Follow Up	0
TOTAL	19

TOTAL CHARGEABLE DAYS	124
NUMBER OF PRIORITY AUDITS/CONSULTANCY WORK	9

INDICATIVE PLAN FOR NEXT SIX MONTHS

Other proposed audit work to be scheduled from 1 October.

Governance Audits
Benefits
Business Rates
Cash and Banking
Council Tax
Creditors
Debtors
ICT Governance
Main Accounting
Payroll
Treasury Management
High/Medium Risk Audits
BACS/BACSTEL-IP Computer System
Homelessness Prevention
Consultancy Work
ERP System – Implementation /Ongoing Advice
ERP System – HR/Self-Service Health Check

Notes

- 1) The above information is for guidance only and may be subject to change.
- 2) Audit coverage may be reduced in some instances to focus on business-critical risks

INTERNAL AUDIT RESOURCES 2020/21

AUDIT TEAM	TOTALS	Audit Manager	Senior Auditor	Internal Auditor
FTE POSTS	3.0	1.0	1.0	1.0
DAYS AVAILABLE	783	261	261	261

PLANNED AUDIT WORK	Days	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Priority Audits/Consultancy Work	341	38	90	107	106
Counter Fraud Work	75	30	15	15	15
Other Work	65	6	19	20	20
TOTAL CHARGEABLE DAYS	481	74	124	142	141

NON-CHARGEABLE TIME	Days			
Supervision & Management	35	30	5	0
Team Meetings	18	6	6	6
Seminars & Training	12	3	3	6
Planning & Business Development	20	20	0	0
Performance Appraisals	4	2	1	1
Annual Leave (Inc. Days Carried Over)	87	33	32	22
Public Holidays	24	8	8	8
Sickness	15	5	5	5
Maternity/Paternity Leave	0	0	0	0
Vacancies/Recruitment	0	0	0	0
COVID-19 Pandemic - Disruption (Actual)	57	0	38	19
COVID-19 Pandemic - Redeployment	30	10	10	10
TOTAL NON-CHARGEABLE DAYS	302	117	108	77

TOTAL RESOURCE REQUIREMENT	783
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TOTAL AVAILABLE DAYS	783
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ESTIMATED RESOURCES FOR PLANNED AUDIT WORK	Available Days	Non-Chrg Time	Resources Available
Quarter 1	195	121	74
Quarter 2	198	74	124
Quarter 3	198	56	142
Quarter 4	192	51	141
TOTALS	783	302	481