

Standards & Audit Committee

Internal Audit Strategy and 6-month Plan 2023/24

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Contents

1 Developing the Internal Audit Strategy	3
1.1 Role of Internal Audit	3
1.2 Factors influencing Internal Audit coverage	3
2 Assurance Resources	7
2.1 Your Internal Audit Team	7
2.2 Working with other assurance providers	7
2.3 Considerations for the Standards & Audit Committee	7
Appendix A: Issues that may affect the Council	8
Appendix B: 6 monthly Internal Audit Plan 2023/24	9

1 Developing the Internal Audit Strategy

This document sets out the approach we have taken to develop your internal audit strategy and covers quarters 1 and 2 of the 6-month plan for 2023/24.

1.1 Role of Internal Audit

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.

Definition of Internal Audit: Chartered Institute of Internal Auditors.

In line with the requirements of the Public Sector Internal Audit Standards (PSIAS), we plan and perform our internal audit work with a view to reviewing and evaluating the risk management, control, and governance arrangements that the council has in place, focusing in particular on how these arrangements help the organisation to achieve its objectives. This involves undertaking a risk-based plan of work, agreed with management, and approved by the Standards & Audit Committee. Our plan is developed to enable us to provide an opinion at year end, which may also be used by the Council to support its Annual Governance Statement.

1.2 Factors influencing Internal Audit coverage

The Council's vision and priorities are the starting point in the development of the audit strategy.

The Council's Vision

An ambitious and collaborative community which is proud of its heritage and excited by its diverse opportunities and future.

The Council's Priorities

People – a borough where people of all ages are proud to work and play, live and stay.

This means:

- high quality, consistent and accessible public services which are right first time
- build on our partnerships with statutory, community, voluntary and faith groups to work together to improve health and wellbeing
- communities are empowered to make choices and be safer and stronger together

Place – a heritage-rich borough which is ambitious for its future.

This means:

- roads, houses and public spaces that connect people and places
- clean environments that everyone has reason to take pride in
- fewer public buildings with better services

Prosperity – a borough which enables everyone to achieve their aspirations.

This means:

- attractive opportunities for businesses and investors to enhance the local economy
- vocational and academic education, skills, and job opportunities for all
- commercial, entrepreneurial, and connected public services

Appendix A reflects the range of potential issues that may affect the council, some of which are included on the risk register. These were used to focus our discussions with management regarding assurance priorities and to determine where internal audit input would be most beneficial.

On 2nd September 2022, the Secretary of State for Levelling-up, Housing and Communities appointed Essex County Council as Commissioners due to significant concerns around the high financial risks and debt relating to the council's investments. In parallel to this, Essex County Council were appointed as Best Value Inspectors to review the governance, audit, risk management and the overview and scrutiny functions of the Council. On 19th December 2022, the council's Section 151 Officer issued a Section 114 Notice which puts strict restrictions on what the council can spend as they cannot balance the budget for 2022/23 and 2023/24.

The scope of the Best Value Inspection was expanded to include other areas including major projects so the report to central government was delayed from the 3rd January 2023 to the 17th February 2023. The Best Value (BV) report was published on 15th June and included a significant number of recommendations, some of which have been recognised in the plan. However, further changes will be made to the 6-month plan to reflect the findings of the report. These will be discussed with the Chair and reported back to Standards & Audit Committee at its next meeting.

During 2022/23 we undertook a detailed audit needs assessment across the council to determine the key priorities for services and develop a new 6-month plan for 2023/24. However, several factors including the problems recruiting into vacant posts, the government intervention, Best Value Inspection (BVI) review, issuing of the Section 114 notice, increasing costs and implementation of a new internal audit working papers software package had a significant impact on internal audit's 2022/23 plan.

The need to react quickly to changing priorities and risks meant that a new approach to address the risks was required. The 6-month plan should help with this as it allows the service to focus on the highest risks and pick up on additional risks that arise as a result of the council's response to the government intervention and Best Value Inspection. The Council is working on the Improvement and Recovery Plan developed with the Commissioners. The Best Value report was published on 17th June. It has identified significant risks, some of which have already been reflected in the draft plan.

In preparing the strategy and the plan for 2023/24, we met with, and attended the meetings for the following senior management during November and December 2022:

- Interim Chief Executive (Ian Wake);
- Director of Strategy, Engagement and Growth (Karen Wheeler);
- Director of Public Realm (Julie Rogers);
- Director of Housing (Ewelina Sorbjan);
- Corporate Director of Children's Services (Sheila Murphy);
- Interim Director of Legal and Governance & Monitoring Officer (John Jones);
- Interim Director of Adult Social Care (Les Billingham);
- Director of Public Health (Jo Broadbent);
- Assistant Director of Public Health (Andrea Clement);
- Director of HR, OD and Transformation (Jackie Hinchliffe);
- Interim Director of Place (Mark Bradbury); and
- Interim Director of Finance and Section 151 Officer (Jonathan Wilson).

The draft plan has been shared with all members of the Senior Leadership Team and the Portfolio Holder for Transformational Change, Communications and Governance.

The reviews in the 2022/23 plan did not take place due to the resourcing issues within the service. However, this is a sector-wide issue and alternative ways to source this role are being discussed. Senior management and the Standards & Audit Committee members will continue to be kept updated.

The Council has a contract in place with Croydon Council utilising the APEX framework for the provision of internal audit and fraud services. The approved contractor on this framework agreement is Mazars. This is a call-off contract, so the Council only pays for work undertaken. It is intended to start using this framework from September, at least in the short-term, to provide additional support to the service. The framework will then be used to provide specialist IT audit work where the service does not have the expertise to perform this in-house.

As with previous plans, the plan for 2023/24 needs to be fluid and is constantly being reviewed, particularly during the current circumstances, to ensure any changes to policy, process, legislation, or priorities are reflected in the current 6 monthly plan. This is particularly relevant for the 2023/24 plan, as recommendations from the BV report and Improvement and Recovery Plan are considered by the Council. On-going discussions will be held with senior management during the year and ad hoc reviews may need to be undertaken where significant risks or control deficiencies are identified.

All changes to the plan will be agreed by the Chief Internal Auditor and Chair of the Standards & Audit Committee following discussions with relevant statutory officers. These changes will be reported to members of the Standards & Audit Committee as part of the progress reporting arrangements.

The key changes which have occurred since the last plan was produced and which have informed the production of this plan are summarised below

Key areas discussed and their impact on the 2023/24 internal audit plan

The continued emphasis on achieving savings has been exacerbated by the financial situation of the Council and the likely impacts of the Government Intervention on 2nd September 2022, with Commissioners being appointed. This also resulted in the Council being subject to a Best Value Inspection and the report from this, which was published on 15th June, will have a significant impact on the plan. Additional directions were also issued in March 2023.

The 6 monthly Internal Audit Plan for 2023/24 is set out at Appendix B. As well as assignments designed to provide assurance or advisory input around specific risks, it includes:

- Planned assurance on areas of activity and the core financial systems.
- A contingency, which will only be utilised should the need arise, and which will be subject to prior approval by the Chief Internal Auditor and Chair of the Standards & Audit Committee, following discussions with relevant statutory officers. All changes will be reported to members of the Standards & Audit Committee.
- Time to follow up previous recommendations and actions to provide the Standards & Audit Committee with assurance on the actions taken by management to address previous internal audit recommendations. High and Medium level recommendations will require further testing as they reach their implementation date. For low level recommendations, we will place reliance on management responses but will follow-up as part of the next review of the service.
- Preparation time and attendance at the Expenditure Control Panel which was set up by the council in response to the issuing of the Section 114 statement in December 2022 and looks at and approves all expenditure between £500 and £25,000. Expenditure over £25,000 is approved by a Strategic Panel.
- Audit management, which is used for quality control of the individual audits, preparation of the strategy and plan, input into the Annual Governance Statement, work on the Improvement Recovery Plan, client meetings, External Audit liaison, preparation of the Chief Internal Auditor's Annual Report and attendance at Standards & Audit Committee.

2 Assurance Resources

2.1 Your Internal Audit Team

Your internal audit team is led by Gary Clifford as Chief Internal Auditor.

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing standards. All members of the team are required to complete an annual Officer's Register of Interest Declaration Form.

2.2 Working with other assurance providers

Internal Audit will hold regular meetings with the external auditors and other key assurance providers to improve our relationship and communication channels and avoid duplication of coverage of work. We will also work with external audit in developing a package of training and awareness for members of the Standards & Audit Committee.

The Standards & Audit Committee is reminded that internal audit is only one source of assurance. Through our plan, we do not seek to cover all risks and processes. However, where we can, we will also seek to work closely with other assurance providers to ensure that duplication is minimised, and a suitable breadth of assurance can be provided.

2.3 Considerations for the Standards & Audit Committee

- Does the 6 monthly Internal Audit Plan for 2023/24 (Appendix B) reflect the areas that the Standards & Audit Committee believe should be covered as a priority.
- Does the Committee recognise the additional flexibility of the plan during the next year to meet the outcomes of the Intervention, outputs from the BV report, the issuing of the Section 114 Notice, and other issues which are likely to result in changing resources, working practices and on-going budgetary pressures?
- Are the Standards & Audit Committee satisfied that sufficient assurances will be received to monitor the organisation's risk profile effectively, including any emerging issues and key risks not included in the 6 month plan?

Appendix A: Issues that may affect the Council

The chart below reflects some of the external and internal issues, both known and emerging that face the Council. A number of these are showing as both known and emerging as they are on-going. It should be noted that external issues can often have an impact on the internal services provided by the Council.

External Factors	Known	Emerging
Government Intervention	✓	✓
Best Value Inspection	✓	✓
Financial Sustainability	✓	✓
Climate Change (Net Zero by 2050)		✓
War in Ukraine (Assistance for refugees)	✓	✓
Cost of Living (Impact on Homelessness)	✓	✓
Increasing Children's and Adult Social Care costs	✓	✓
Regeneration	✓	
House building and financing schemes	✓	
Cyber Security	✓	✓
General Data Protection Regulation	✓	

Internal Factors	Known	Emerging
Issuing of Section 114 notice	✓	✓
Safeguarding	✓	
Fraud	✓	
Procurement of goods and services	✓	
Medium Term Financial Planning	✓	✓
Major Projects/Contract Management	✓	✓
Risk Management		✓
Business Continuity & Disaster Recovery	✓	
Commercialisation (including income generation and investments)		✓
Financial Resilience and Reporting	✓	
Homelessness	✓	
Transformation Programme (including digital)	✓	✓

Appendix B: 6 monthly Internal Audit Plan 2023/24

Auditable Area	Rationale for Internal Audit Coverage	Audit Approach	Proposed Start
6 monthly Internal Audit plan 2023/24			
Corporate/Thematic Reviews			
Contract Waiver Process (Section 114 Notice)	To ensure the waiver of contracts is in compliance with legislation and the Council's Constitution. The awarding waivers is backed up by appropriate documentation and evidence and the Council is getting value for money.	Compliance	Quarter 1
Risk Management (BVI report)	The scope of this review is yet to be agreed with the Interim Director of Legal & Governance and the Council's Corporate Risk & Insurance Manager but will be used to support the Council's arrangements around risk management following the issuing of the Best Value report on 15 th June 2023.	Advisory	Quarter 1
Public Sector Internal Audit Standards (Improvement & Recovery Plan)	To undertake a self-assessment of the internal audit service against the PSIAS and develop a Quality Assurance Improvement Programme. This will ensure the service is providing the Council with an effective and efficient internal audit function that meets relevant professional standards.	Compliance	Quarter 1 and 2
Grant Claim Certification (Central Government requirement of the grant funding)	To review income and expenditure relating to grants and ensure it has been used in accordance with the grant conditions.	Compliance	Quarter 1 and 2 and on-going.
Children's Services			
Troubled Families Programme (Central Government requirement of the grant funding)	Checking of a sample of claims to determine if evidence is sufficient to confirm that the claims being submitted are appropriate and correct.	Advisory	Quarter 1 and 2 and on-going
Adults, Housing & Health			
Housing - Payments to contractors (Corporate Risk Register – 3)	This is a high-cost area and a review to ensure that payments made to contractors are providing best value, are appropriate and that performance is managed and monitored would provide assurance to senior management and members.	Assurance	Quarter 1

Auditable Area	Rationale for Internal Audit Coverage	Audit Approach	Proposed Start
Place Delivery			
Divestments – including Asset Disposals (Improvement and Recovery Plan and BVI report)	As a result of the council's financial position, it is reviewing its assets and investments to determine those that can be disposed of to support its improvement and recovery. Internal Audit will review this process to ensure there is a strategy in place to support this work and appropriate governance and risk management processes to ensure that the Council is obtaining best value.	Assurance	Quarter 2
Finance			
Investments (Improvement and Recovery Plan and BVI report)	As a result of the Council's financial position, new policies and procedures are being developed to ensure any Investments made in future will be based upon good decision making backed up by proper risk assessment and challenge. Internal audit will review the process to provide assurance to senior management and Members that these control mechanisms are in place. The review will also look at the Treasury Management Policy and ensure it is aligned to CIPFA's Treasury Management in the Public Services Code of Practice 2021.	Assurance	Quarter 2
Accounts Payable (Core Financial)	Core Financial Review <ul style="list-style-type: none"> • Ordering & authorisation • Invoice matching • Separation of duties • Payment processing • BACS transfers • Reconciliation 	System	Discussions held with contractor and resources will be allocated from September onwards
Accounts Receivable (Core Financial)	Core Financial Review <ul style="list-style-type: none"> • Processes and procedures • Reconciliation • Write-offs • Recovery • Analysis 	System	Discussions held with contractor and resources will be allocated from September onwards
Council Tax (Core Financial)	Core Financial Review <ul style="list-style-type: none"> • Processes and procedures • Reconciliation • Billing • Collection & Recovery 	System	Quarter 2
National Non-Domestic Rates (Core Financial)	Core Financial Review <ul style="list-style-type: none"> • Processes and procedures • Reconciliation • Billing • Collection & Recovery 	System	Quarter 2

Auditable Area	Rationale for Internal Audit Coverage	Audit Approach	Proposed Start
Housing Benefits (Core Financial)	Core Financial Review <ul style="list-style-type: none"> • Processes and procedures • Processing of forms • Entitlement checks • Reconciliation • Raising Debts • Year-end balancing 	System	Discussions held with contractor and resources will be allocated from September onwards
Strategy, Engagement and Growth			
Registrars Stock and Security review (Management request)	Management request to undertake a review of the security arrangements and processes around the storage and issuing of controlled stationery for births, deaths, and marriages, following an inspection by the General Register Office.	Assurance	Quarter 1
HR, OD & Transformation			
Cyber Security (Corporate Risk Register – 20)	This is identified nationally as a key risk for all organisations including those in the public sector. Whilst a lot of work has been undertaken in the last couple of years, this needs to be revisited to ensure the council has robust arrangements to deter or react to cyber threats.	Assurance	TBA through the APEX Framework

Auditable Area	Rationale for Internal Audit Coverage	Audit Approach	Proposed Timing
Other Internal Audit Activity			
Contingency	To allow additional reviews to be undertaken in agreement with the Standards & Audit Committee or management based in changes in risk profile or assurance needs as they arise during the year. Ad hoc project work for services in an advisory capacity.	N/A	On-going
Follow up	To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.	Follow up	On-going
Expenditure Control Panel	The Chief Internal Auditor is a member of the Expenditure Control Panel set up as part of the response to the issuing of the Section 114 notice. This panel meets 3 times a week and has to approve all expenditure between £500 and £25,000.	Advisory	On-going
Management	<p>This will include:</p> <ul style="list-style-type: none"> • Annual planning. • Preparation for, and attendance at, Standards & Audit Committee. • Regular liaison and progress updates. • Liaison with external audit and other assurance providers. • Preparation of the Head of Internal Audit's Annual Report. • Attendance at Directorate Management Team, Leadership Group and regional and local audit groups. • Assistance in preparation of the AGS. • Meetings with the Chair and other members of the Standards & Audit Committee if required. • Work to be undertaken as one of the projects within the Improvement & Recovery Plan 	N/A	On-going