RYEDALE
DISTRICT
COUNCIL

REPORT TO:	**OVERVIEW AND SCRUTINY COMMITTEE**
DATE:	**20 JANUARY 2022**
REPORT OF THE:	**CHIEF FINANCE OFFICER (s151)** **ANTON HODGE**
TITLE OF REPORT:	**INTERNAL AUDIT WORK PROGRAMME 2022/23 - CONSULTATION**
WARDS AFFECTED:	**ALL**

EXECUTIVE SUMMARY

1.0   PURPOSE OF REPORT

1.1   The purpose of the report is to seek members' views on risk areas that should be considered a priority for audit in 2022/23, to help inform the preparation of the work programme.

2.0   RECOMMENDATION(S)

2.1   Members are asked to identify any specific risk areas which they believe should be considered a priority for audit in 2022/23.

3.0   REASON FOR RECOMMENDATION(S)

3.1   To ensure audit resources are targeted to key risk areas and to help inform the overall internal audit planning process.

4.0   SIGNIFICANT RISKS

4.1   To comply with proper practice requirements for internal audit, the views of the committee on council strategies, key business objectives, associated risks and risk management processes should be considered in planning internal audit work.

5.0   POLICY CONTEXT AND CONSULTATION

5.1   The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), Cipfa guidance on the application of those standards in Local Government and the Cipfa Statement on the role of the Head of Internal Audit.

6.0 REPORT DETAILS

6.1 In accordance with the PSIAS, and as acknowledged in the council's audit charter, *"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."*

6.2 The council's audit charter requires internal audit to draw up an indicative audit plan (known as the work programme) each financial year. Members will recall that when the 2021/22 work programme was presented at the July 2021 meeting of this committee a new, flexible approach to planning was introduced. This sees internal audit work set out in an indicative programme. This is a long list of areas which are a higher priority for audit during the year. Actual work to be undertaken is selected from the long list throughout the year based on ongoing assessment of risks and priorities.

6.3 The work programme is informed by a number of factors such as the council's risk registers, relevant national issues and our wider audit knowledge, including the results of recent audit work. The council's external auditors are also consulted to avoid possible duplication of work programmes, and to maximise the overall benefit of audit activity. The draft work programme will be presented to Overview and Scrutiny Committee in April 2022, for approval.

6.4 Internal audit work programmes cover a range of risk areas to ensure that the work undertaken enables Veritau to meet the requirement to provide an overall opinion on the governance, risk management, and control framework operating in the council. We have defined 11 key areas where we require assurance during the course of the year in order to provide that opinion, as follows:

- Strategic planning
- Organisational governance
- Financial governance
- Risk management
- Information governance
- Performance management and data quality
- Procurement and contract management
- People management
- Asset management
- Programme and project management
- ICT governance

6.5 While the overall structure of the work programme remains unchanged, its development and delivery will include consideration of the coverage of the above areas. The work programme continues to be organised according to:

- **Strategic risks** – for example those included as key risk areas in the corporate risk register, the successful management of which are fundamental to the ongoing success of the council
- **Corporate and cross-cutting areas** – covering areas such as governance, performance, projects and risk

- **Fundamental / material systems** – which represent a high level of inherent risk due to the value and volumes of transactions processed
- **Specific service reviews** – particularly those which make a significant contribution to corporate objectives and where weaknesses may represent a significant risk
- **Technical / projects** – those areas of a technical nature and/or where project management is involved. These areas are key to the council as the risks involved could detrimentally affect the delivery of services.

6.6 The standards require that internal audit independently forms a view on the risks facing the council and work to be included in the work programme. However, there is also a requirement to take into account the views of the Overview and Scrutiny Committee and senior council officers in forming that view. This requirement is set out explicitly at paragraph 5.2 of the audit charter which states that internal audit should *"draw up an indicative risk based audit plan on an annual basis following consultation with the Overview and Scrutiny Committee and senior management"*. Some further background information on the standards is included in Appendix 1.

6.7 Internal audit is currently at the initial stage of planning work for 2022/23. Consultation meetings will be held with members of Strategic Management Board in February and March 2022. The planning process will take into account those key assurance areas listed at paragraph 6.4 but will also take account of preparations for Local Government Reorganisation (LGR). In particular, the need to ensure the continuity of governance and control arrangements, and the management of risk, in the run up to the transfer.

6.8 Members and senior council officers have an important role in shaping the programme by helping to direct internal audit to areas of greatest risk and priority during the council's last 12 months of operation. It is quite possible that the work programme agreed will look significantly different to previous years given the major influence of LGR on the council's operations.

6.9 As well as forming our on view on key risks and priorities, we will be looking to members and senior officers to have particular input this year. For example, as to whether the overall focus should be on corporate and cross-cutting systems in order to provide assurance on the continued operation of fundamental controls ahead of the transfer to the new authority. Equally, it might be that a focus on operational and service areas is required to ensure that services continue to be effectively delivered while the council is heavily involved in discussions and decisions around the future of the new authority in the lead up to LGR.

6.10 Taking into account all of the above, the purpose of this report is to seek the views of the committee on key risks facing the council, and areas it feels should be considered for audit in 2022/23 so that any views can be factored into the planning process.

6.11 Our expectation is that most work undertaken during 2022/23 will be reactive in nature in order to allow us to focus on whichever priorities relating to LGR are most pressing at any given point in the year. We will therefore reserve a large proportion of the work programme for such reactive work to ensure that we have the capacity and flexibility to deliver assurance and advisory services when and where they are needed most.

6.12 To help members formulate their ideas as to the initial priority areas to include in the 2022/23 work programme we have included, in Appendix 2, our definitions of the 11 key assurance areas which provide the foundations of our approach to planning. These are provided for reference, to assist members in organising their thoughts. While all areas are important in enabling internal audit to arrive at an annual opinion, members may well have views on which of these are deserving of particular attention, and have

suggestions for specific aspects of each they would like assurance on.

7.0   IMPLICATIONS

7.1   The following implications have been identified:
    a)   Financial
        None
    b)   Legal
        None
    c)   Other (Equalities, Staffing, Planning, Health & Safety, Environmental and Climate Change, Crime & Disorder)
        None

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Background Papers:
Internal Audit Charter
Public Sector Internal Audit Standards
Corporate Risk Register (September 2021)
Council Plan 2020-2024

APPENDIX 1

Background
There is a statutory duty on the Council to undertake an internal audit of the effectiveness of its risk management, control and governance processes. The Accounts and Audit Regulations 2015 also require the audit takes into account public sector internal auditing standards or guidance.

The Public Sector Internal Audit Standards (PSIAS) and CIPFA's local government application note for the standards represent proper practice for internal audit in local government.

Public Sector Internal Audit Standards (PSIAS) - extracts

1100: Independence and Objectivity
The internal audit activity must be independent and internal auditors must be objective in performing their work.

Interpretation: Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

1110 Organisational Independence
The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

1110.A1
The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.

2010 Planning
The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

Interpretation: To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.

2020 Communication and Approval
The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval.

Cipfa Local Government Application Note: In accordance with current best practice the audit committee should *'review and assess the annual internal audit work plan.'* The development of the risk-based audit plan remains the responsibility of the chief audit executive after consultation with senior management and the board, but the board should approve it.

APPENDIX 2

Key assurance area	Definition
Strategic planning	Strategic planning is the process by which our clients define and develop their strategy, or direction, and make decisions on resource allocation to successfully pursue this strategy. It also encompasses the control measures in place to guide strategy implementation. The end result for our clients is the production of the corporate plan (or equivalent) and other such key plans and strategies which form part of the wider policy framework. This area is of importance to internal audit as effective strategic planning is a prerequisite for ensuring long term, sustainable success. A strategy developed following a robust strategic planning process is more likely to be fit for purpose and so to help our clients to achieve their key corporate objectives.
Organisational governance	Governance is the combination of processes and structures implemented by the board in order to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives. These processes and structures include those relating to - Making strategic and operational decisions - Overseeing risk management and control - Promoting appropriate ethics and values within the organisation. - Ensuring effective organisational performance management and accountability - Communicating risk and control information to appropriate areas of the organisation. - Coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management. In a local authority context, the principles of effective governance are set out in Cipfa's 2016 Good Governance framework. Effective corporate governance arrangements should ensure that the aims and objectives of our clients are not subverted, and resources not fraudulently diverted to individuals.
Financial governance	Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should *"... make arrangements for the proper administration of their financial affairs...".* Financial governance should ensure this proper administration through the systems by which the finances of local authorities are directed and controlled to support the delivery of the organisation's goals. Common objectives of financial governance such as value for money, probity, stewardship of public resources, and supporting decision-making are achieved through the effective management of a number of systems which collectively form the financial framework (e.g. financial accounting, budget management, income generation and debt management, financial planning, treasury management, and payroll).
Risk management	Risk management encompasses those processes to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives. Determining whether risk management processes are effective is a judgement resulting from assessment that:

Key assurance area	Definition
	• Organisational objectives support and align with the organization's mission. • Significant risks are identified and assessed. • Appropriate risk responses are selected that align risks with the organisation's risk appetite. • Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management, and the board to carry out their responsibilities.
Information governance	Information governance is the set of multi-disciplinary structures, policies, procedures, processes and controls implemented by our client organisations to manage information at a corporate level. These governance arrangements should support an organisation's immediate and future regulatory, legal, risk, environmental and operational requirements. From an internal audit perspective, it principally relates to our clients' responsibility to comply with the Data Protection Act 2018 and UK GDPR in the way in which it processes its data but it also involves related legislation such as the Freedom of Information Act 2000, and the Environmental Information Regulations 2004. Given that data is the lifeblood of an organisation, it also concerns the proper management of its information assets such that they can be efficiently and effectively, created, tracked, retrieved, and used (as well as securely destroyed) to help with organisational decision-making.
Performance management and data quality	Performance management relates to the systems and responses in place that allow for the taking of effective action in response to actual performance in order to improve outcomes. It is the main means by which organisations are held to account for their use of resources and the quality of the services they provide. Ultimately, the performance management framework is only as good as the data that it is supplied with. Good quality data is that which is accurate, valid, reliable, timely, relevant, and complete. Processes for collecting, compiling and calculating performance information should include procedures for ensuring the quality of data.
Procurement and contract management	Effective procurement is vital for any organisation to minimise unnecessarily wasteful expenditure and to ensure that it maximises value for money in its service delivery. Public sector operating costs/expenditure is dominated by the procurement of services and goods, staffing costs and capital finance costs. Every procurement process undertaken by a local authority or on its behalf needs to comply with the provisions of its own constitution and the strategic objectives and policies set out in its commissioning and procurement strategy or equivalent. Managing the contract and supplier to ensure that the supplier delivers against the contract (and that risks and opportunities are managed) is another fundamental aspect of this assurance area.
People management	The area of people management involves such processes as recruitment and selection, remuneration, attendance management, training / talent development, individual performance management, equal opportunities, welfare and industrial relations, working arrangements, and discipline. Given how fundamental people are to the achievement of an organisation's objectives and the broad spectrum of potentially significant risks to human resources, it is a key area where assurance is required.

Key assurance area	Definition
Asset management	Asset management involves the proper safeguarding and recording of assets. It seeks to align the asset base with the organisation's corporate goals and objectives. The elements of a good asset management process are the maintenance of accurate records an asset register or inventory, an awareness of the physical location of assets and their custodian, and periodic and systematic physical verification of the existence and condition of assets to protect against theft and detect the unauthorised use of property. Our client organisations are exposed to a number of risks in managing their assets through this lifecycle such as financial loss, value for money, lack of data integrity, misappropriation, mismanagement of assets or failure to align asset base with corporate objectives. The management of assets is one of the larger sources of costs on revenue budgets and so is of significant importance from a financial perspective alone.
Programme and project management	Programmes are collection of related projects managed in a coordinated fashion so as to obtain benefits and control that would otherwise not be available from managing those projects individually. By contrast, projects are discrete, clearly defined, shorter-term engagements, involving the application of processes, methodologies, and specific/cross-functional skills and methodologies to achieve specific and measurable outcomes. In general terms, programmes and projects can be considered successful if they bring about sustainable change that aligns with, and furthers delivery of, corporate objectives, delivering outcomes to agreed cost, quality and time parameters.
ICT governance	Information technology (IT) governance is a sub-discipline of organisational governance consisting of the leadership, organisational structures, policies, and processes that ensure that the organisation's information technology supports its strategies and objectives. Ultimately, the strength of an organisation's IT governance arrangements is determined by both strategic- and operational-level control design and effectiveness. Applications, application controls, IT infrastructure (e.g. database, operating system, network/physical assets), and IT general controls combine to form the IT environment. IT governance should guide the management and oversight of these day-to-day activities and so help to establish an effective control environment that is able to support both the operational and strategic objectives of the organisation.