

Report of:	Chief Executive, Veritau
Submitted to:	Corporate Affairs and Audit Committee, 6 February 2020
Subject:	Internal Audit report

Summary

Proposed decision(s)
<p>That the Committee:</p> <ul style="list-style-type: none"> • approves the proposed internal audit charter included at annex 1 • notes the arrangements for the preparation of the 2020/21 internal audit plan • provides comments on risk areas that they consider a priority for audit in 2020/21 to help inform the preparation of the annual internal audit plan

Report for:	Key decision:	Confidential:	Is the report urgent?¹
Information	No	No	No

Contribution to delivery of the 2020-23 Strategic Plan		
People	Place	Business
<p>Agreement to note the audit findings or identify where additional assurance is required will help the Committee perform its role. Internal audit work contributes towards achieving the Council's priorities by identifying any potential control issues which may obstruct that achievement.</p>	<p>Internal Audit assists management in delivering their priorities by working to an annual programme of work that includes assignments linked to corporate risks and priorities, and which seeks to add value by assessing the quality of controls in place to assure delivery, ensure value for money and achieve better outcomes for local people.</p>	<p>Internal Audit assists management in delivering their priorities by working to an annual programme of work that includes assignments linked to corporate risks and priorities, and which seeks to add value by assessing the quality of controls in place to assure delivery, ensure value for money and achieve better outcomes for local people.</p>

¹ Remove for non-Executive reports

Ward(s) affected
None.

What is the purpose of this report?

1. To seek Members' views on areas for inclusion within the 2020/21 internal audit plan as well as to approve the revised internal audit charter.

Why does this report require a Member decision?

2. Internal audit professional standards require that the responsibility of the internal audit function be formally defined in an Internal Audit Charter which should be approved by Members. They also require an indicative audit plan based on an assessment of risk and Members views should be taken into account when producing this.

Report Background

3. Internal audit provides independent and objective assurance and advice about the Council's operations. It helps the organisation to achieve overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.
4. 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.
5. On 1 January 2020, the Council transferred its internal audit function to a new shared service company (Veritau Tees Valley Limited) of which it is a shareholder. This is the first report to this Committee about the work of the Internal Audit function, following the transfer of the service to Veritau.
6. For the remainder of the current financial year, Veritau will focus on the delivery of outstanding priority audit work in the previously agreed internal audit plan for 2019/20. However, there is a need to update arrangements around the provision of the service (for example by agreeing a new audit charter). Veritau is also starting the process of drafting the internal audit plan for 2020/21.
7. The purpose of this report is to present a new Internal Audit Charter to the Corporate Affairs and Audit committee for approval. It also outlines the process that will be followed in drawing up the internal audit plan for 2020/21 and seeks the committee's views on risk areas that may be a priority for Veritau in the next financial year.

Internal Audit Charter

8. In accordance with the PSIAS, the purpose, authority and responsibility of the internal audit function must be formally defined in an Internal Audit Charter. This must include elements defined in the standards, and be periodically reviewed by the Head of Internal Audit and presented to the Corporate Affairs and Audit Committee for approval.

9. A proposed new Internal Audit Charter is included at Annex 1 for approval by the committee. The overall content of the proposed charter is similar to the existing charter (reflecting the PSIAS requirements). However, the revised version reflects Veritau operational arrangements – for example quality assurance processes. The new charter also includes appendices that set out key elements of the relationships between internal audit and the chief finance officer, and the Corporate Affairs and Audit Committee. This reflects the importance of these relationships, referred to in the standards.

Consultation on 2020/21 internal audit plan

10. Internal audit standards require an indicative audit plan to be drawn up at the start of each financial year. The plan must be based on an assessment of risk. In coming to a view on the risks facing the Council the opinions of the Corporate Affairs and Audit Committee and senior Council officers will be taken into account. The plan will also be informed by the Council's risk registers, relevant national issues and wider audit knowledge such as information about emerging risks identified through professional networks. The Council's external auditors (EY) are also consulted to avoid possible duplication of work programmes and to maximise the overall benefit of audit activity. The draft plan will be presented to the Corporate Affairs and Audit Committee on 5 March 2020, for final approval. The outline timetable for preparation of the plan is set out in table 1 below.

Table 1: 2020/21 audit planning – outline timetable

Timeframe	Activity
Mid January - early February 2020	Veritau review of information including service plans, previous internal audit work, emerging organisational issues and strategic risk registers. This will be used to draw up a long list of areas that may be subject to audit and develop an initial broad assessment of risk to inform detailed audit planning.
Late January - mid February 2020	Discussions with senior officers across the Council and key service contacts about risks and priorities for audit.
6 February 2020	Consultation with the Corporate Affairs and Audit Committee.
Mid February 2020	Final draft of internal audit plan prepared by Veritau.
Mid - late February 2020	Consultation on the draft plan with the Strategic Director of Finance, Governance and Support, Head of Financial Governance, and Directorate Management Teams.
5 March 2020	Approval of the audit plan by Corporate Affairs and Audit Committee.

11. Internal audit plans cover a range of risk areas to ensure that overall, the work undertaken will enable the service to meet the requirement of the standards to provide an overall opinion on the framework of governance, risk management, and control operating in the Council. These include areas such as:

- strategic risks - for example those included as key risk areas in the risk register
- financial systems - which represent a relatively high level of inherent risk due to the value and volumes of transactions processed
- corporate areas – covering areas such as governance, performance, projects and risk
- reviews - particularly those which make a significant contribution to corporate objectives and where weaknesses may represent a significant risk
- value for money and efficiency

12. The standards require that Veritau independently forms a view on the risks facing the Council and work to be included in the audit plan. However, there is also a requirement to take into account the views of the Corporate Affairs and Audit Committee in forming that view. The requirement is set out explicitly at paragraph 5.2 of the new audit charter which states that Veritau should “draw up an indicative risk based audit plan on an annual basis following consultation with the Corporate Affairs and Audit Committee and senior management”.

13. Table 2 below includes some initial thoughts on risk areas for consideration for audit in 2020/21. These suggestions are included to prompt discussion and are not intended to be a definitive or complete list of areas that could be reviewed in 2020/21. The list is based on risk areas known to be an issues across the local government sector. Work is currently ongoing to understand specific risks faced by Middlesbrough Council and these will be considered in drawing up the detailed draft internal audit plan.

14. Table 2: risk areas to consider for audit in 2020/21

<p>Corporate & cross-cutting risks</p>	<ul style="list-style-type: none"> • Medium term financial planning and budgeting, budget management, savings plans, commercialisation and investments, financial resilience • Areas of the council’s corporate governance framework (e.g. schemes of delegation, constitution, complaints process) • Strategic Planning (e.g. policies and procedures, the Council Plan) • Risk management, disaster recovery plans and insurance arrangements • Performance management and data quality • Partnership working • Procurement and contract management including data sharing, modern slavery act compliance and third party risk
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<p style="text-align: center;">s p e c i f i c s</p>	<ul style="list-style-type: none"> • Ethics and organisational culture, workforce planning, training and development • Information governance and data protection – compliance, management of information assets, data breach management, training • Environment and waste – air pollution, carbon footprint, energy reduction, recycling • Health and safety
<p>Project Management</p>	<ul style="list-style-type: none"> • Overall corporate arrangements • Review of specific key projects
<p>Main Financial systems</p>	<ul style="list-style-type: none"> • Payroll/personnel • General ledger, debtors (including debt recovery and enforcement practice), creditors, cash income • Capital accounting and assets • Council Tax/ NNDR & benefits • Treasury management
<p>Service specific risks and other areas</p>	<ul style="list-style-type: none"> • Adult and children’s social care – budget management, placements, referrals and assessments, procurement, quality assurance, capacity, contract monitoring, deprivation of liberties • Special Education Needs and Disability (SEND) – EHC plans (processes), planning, working with partners, funding • Public health including management of contracts • Other risks relating to specific service areas (such as planning, local plan strategy, estates, leisure services, waste collection and recycling, licensing, environmental health, economic development). • IT Strategy & Governance (such as information security policies, IT risk management, supporting service development and roles and responsibilities) • IT Information security (such as server configuration, patch management and operating system configuration) • IT Services (such as help desk, incident management and network availability) • Cyber security • Digitalisation / automation

15. In compiling the Internal Audit Plan, consultation is undertaken with the Corporate Affairs and Audit Committee, Directorate Management Teams, key officers including the Strategic Director of Finance, Governance and Support, Head of Financial Governance and Revenues and EY.

What decision(s) are being asked for?

16. That the committee:

- Approves the proposed internal audit charter included at annex 1
- Notes the arrangements for the preparation of the 2020/21 internal audit plan
- Provides comments on risk areas that they consider a priority for audit in 2020/21 to help inform the preparation of the internal audit plan.

Why is this being recommended?

17. Internal audit professional standards require that the responsibility of the internal audit function be formally defined in an Internal Audit Charter which should be approved by Members. The internal audit charter has been updated to reflect the new operational arrangements with Veritau.

18. Internal audit professional standards also require an indicative audit plan based on an assessment of risk. This report gives Members the opportunity to have their opinions taken into account.

Other potential decisions and why these have not been recommended

19. This report is for information, consultation and approval. There are no other options available.

Impact(s) of recommended decision(s)

Legal

20. There are no specific risks.

Financial

21. There are no specific risks.

Policy Framework

22. There are no specific risks.

Equality and Diversity

23. There are no specific risks.

Risk

24. The Council will fail to comply with proper practice for internal audit if appropriate officers and members are not consulted on the content of audit plans.

Actions to be taken to implement the decision(s)

25. Any requests for additional assurance or clarification by Members of the Committee will be responded to accordingly.

Appendices

Annex 1 – Internal Audit Charter for approval

Background papers

No background papers were used in the preparation of this report

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