Internal Audit Work Programme Consultation 2025/26

Date: 12 December 2024

Appendix 1

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Assurance for the public sector

Middlesbrough
moving forward

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Introduction

1   The Public Sector Internal Audit Standards (PSIAS), and the Council's audit charter, require internal audit to draw up an indicative programme of work based on an assessment of risk. The standards require internal audit to independently form a view on the risks facing the Council. The standards also require the opinions of members of the Audit Committee and senior Council officers to be considered when forming that view.

2   A specific public sector requirement for internal audit is that the risk-based plan (or programme) must take into account the requirement to produce an annual internal audit opinion. 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 framework of governance, risk management, and control operating at the Council.

3   In relation to these requirements, the Committee's views are sought on areas it considers a priority for internal audit coverage during 2025/26. This report represents the first stage in consultation on the annual programme of work.

4   We are bringing the consultation report to the Committee earlier this year in order to move forward our reporting cycle. A full draft programme is expected to be brought to the Committee in March 2025.

The year ahead
5   The Council was issued a Best Value notice by the government in January 2023 due to concerns from about the way the Council was operating. This followed governance issues identified at the Council in internal and external audit reports.

6   The Best Value notice was subsequently re-issued in January 2024 but it was then removed in September 2024 as the government recognised the positive changes that have been made. The Council accepts that whilst this reflects the work that has already been carried out there will be more work to do to ensure that the Council's governance arrangements are fit for purpose.

7   The Council is currently in a difficult financial position which it has recognised as 'critical' and 'extremely challenging'. The Council received £13.4m in exceptional financial support from the government during 2024/25.

8   In order to address this the Council has a savings delivery programme and a transformation programme ("Recover, Reset, Deliver") underway. The outcomes of these programmes over the next year will be closely linked to any potential improvements in the Council's financial position.

Approach: The Opinion Framework

Background

9   In addition to the requirements referred to above, the PSIAS also expect that the risk-based programme of work is linked to, and contributes to:

- the management of strategic risks, and
- the achievement of organisational objectives and priorities.

10   The annual opinion is the most important output from internal audit and a key source of objective assurance for the Council's leadership team and those charged with governance. It also helps to inform the Annual Governance Statement. The opinion must therefore be well founded if it is to provide proper assurance to the Council.

The opinion framework

11   Veritau has an opinion framework which sets out the principles used to develop and manage the audit work programme. It ensures audit coverage is aligned with the Council's risks and targeted towards the key priority areas. We continuously revisit those priorities during the year so that the work programme remains up to date.

12   The main component of the opinion framework is a definition of key assurance areas. These represent 11 areas of internal control that we think are essential to the proper functioning of the Council. Systems and controls in each area need to be operating effectively to maximise the likelihood that the Council's objectives are achieved without undue exposure to risk. The areas cover both corporate arrangements, and the management of risks and controls in individual service areas that collectively contribute to the Council's wider objectives.

13   Overlaid on these 11 key assurance areas are two further components of the framework:

- Organisational risks
- Organisational objectives

14   The risks considered for audit planning are those set out in the Council's Strategic Risk Register (SRR). There are many other risks associated with the wide range of services the Council delivers. However, the risks on the SRR are those considered most significant to the achievement of the Council's objectives. There are currently 14 risks on the SRR. Where appropriate, service risks are considered as part of individual audit assignments.

15   The Council's organisational objectives are expressed in its 2024-27 Council Plan as ambitions. There are four ambitions covering economic

growth, health and wellbeing, communities and delivering best value. Each of these ambitions have a number of priorities which reflect how the Council expects to meet the ambitions.

16   The audit workplan will be developed by looking to have appropriate coverage across all 11 of the key assurance areas where we require information to enable us to provide the annual opinion. In deciding what work is a priority in each area, we also consider which audits will also provide coverage of strategic risks and corporate ambitions and priorities.

Key assurance areas

Key assurance areas: an overview and examples

17   Details of the 11 key assurance areas are set out below. We have provided definitions, and some examples of arrangements, systems, and processes we could review under each area. The examples are for illustrative purposes and are not exhaustive. Some audit work will likely cut across a number of the key assurance areas.

Strategic planning

18   Strategic planning covers the arrangements the Council has in place to define and develop its 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 Council's strategy and policy framework are comprised of the Council Plan, and other key plans and policies which give effect to the strategies.

19   This area is of importance to internal audit as effective strategic planning is a prerequisite for delivering long term, sustainable success.

Examples

▲ Social care delivery and commissioning	▲ Climate change
▲ Housing development	▲ Local planning

Organisational governance

20   Governance is the combination of processes and structures implemented to inform, direct, manage and monitor the activities of the Council toward the achievement of its objectives. At its most visible, governance involves the set of policies put in place for the direction and control of the organisation and the establishment of rules and procedures for making decisions and for complying with relevant legislation and regulations. Governance also encompasses business ethics, leadership, strategic management, and control activities. In a local authority context, the principles of effective governance are set out in the CIPFA / Solace 2016 Delivering Good Governance in Local Government: Framework.

21   Internal audit is expected to assess and make appropriate recommendations to improve the Council's governance processes. It is also expected to evaluate risk exposures relating to compliance with laws, regulations, policies, procedures and contracts.

Examples

▲ Adherence to Constitution	▲ Council companies and other commercial operations

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| ▲ Policy framework | ▲ Democratic governance |

Financial governance

22 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 involves arrangements for giving a reliable account of the money spent and income received, stewardship of public resources, compliance with legal and regulatory requirements, ensuring value for money, supporting effective decision-making, and facilitating planning and resource allocation.

23 The PSIAS require that internal audit evaluates the adequacy and effectiveness of controls relating to the reliability and integrity of financial information.

Examples

| ▲ Income collection & debt management | ▲ Benefits and Council Tax support systems |
| ▲ Financial resilience | ▲ Ordering and creditor payments |

Risk management

24 Risk management encompasses the Council's arrangements for identifying, assessing, managing, and controlling potential events or situations to provide reasonable assurance that its objectives will be achieved. It involves being aware of risk exposures, selecting appropriate risk responses that align risks with the Council's risk appetite, and communicating relevant information in a timely manner across the organisation.

25 Internal audit's role is to evaluate the effectiveness of risk management processes and contribute to their improvement.

Examples

| ▲ Risk management processes | ▲ Health and safety |
| ▲ Insurance | ▲ Disaster recovery |

Information governance

26 Information governance is the set of multi-disciplinary structures, policies, procedures, processes, and controls implemented to manage information across the Council. These governance arrangements should support the Council's immediate and future regulatory, legal, risk, environmental and operational requirements.

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Examples

▲ UK GDPR compliance	▲ Records management
▲ Data breach management	▲ Rights of individuals requests

Performance management and data quality

27   Performance management refers to the systematic process by which the Council plans, monitors, and improves the delivery of the services it provides to the public. The starting point for performance management is the Council's strategic ambitions which then filter down the organisation to directorate, service, team and individual levels. The Council's performance management framework aims to join up delivery at all levels by setting clear, achievable targets which can be accurately monitored and reported, with corrective action being taken promptly and appropriately.

Examples

▲ Performance framework	▲ Data quality
▲ Service performance management	▲ Follow-up processes

Procurement and contract management

28   Effective procurement and contract management is vital for any local authority to ensure that it maximises value for money in its service delivery. Every procurement process undertaken by the Council needs to comply with the provisions of its Constitution (including the Contract Procedure Rules) and the objectives set out in its Procurement Strategy. Public sector procurement also needs to comply with the Public Contracts Regulations and with any changes introduced by the new Procurement Act 2023 which is expected to come into force on 24 February 2025.

29   Once a procurement exercise is completed and the contract begins, it is essential that it is monitored regularly to ensure compliance with its terms and conditions, to manage delivery risk, and to assess performance.

Examples

▲ Individual procurement exercises	▲ Individual contract management reviews
▲ Compliance with contract procedure rules	▲ Category management and forward planning

People management

30   This area covers all aspects of the management of human resources across the Council. For example, recruitment and selection, remuneration, attendance management, training and talent development, individual performance management, equal opportunities, welfare and industrial relations, working arrangements, and discipline.

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31   The Council's people are essential to the achievement of its objectives, and there are a wide range of potentially significant risks in this area.

Examples

▲ Succession planning	▲ Performance management
▲ Equalities, diversity, and inclusion	▲ Recruitment and retention

Asset management

32   Asset management involves the proper management, safeguarding and recording of assets. It seeks to align the asset base with the Council's corporate ambitions and objectives. Key areas for effective asset management include strategic planning, maintenance of accurate records, an understanding of the physical location of assets, allocated responsibility for assets, and periodic and systematic physical verification of the existence, condition, and performance of assets.

33   Ensuring the safeguarding of assets is one of five key risk areas that the PSIAS require internal audit to evaluate when providing assurance on the adequacy and effectiveness of the Council's risk management arrangements.

Examples

▲ Verification of assets	▲ Asset repair and maintenance
▲ Commercial property strategy	▲ Acquisition, transfer, and disposal

Programme and project management

34   Programmes are a collection of related projects managed in a coordinated way. This can bring benefits and control over and above what is achievable from managing projects individually. 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.

35   Effective project management is important for the Council to ensure resources are used efficiently and to achieve value for money. This is particularly the case for large and high-profile projects that bring about significant change. Internal audit is expected to evaluate risk exposures relating to the effectiveness and efficiency of Council programmes and projects.

Examples

▲ Project management framework review / compliance	▲ Individual review of projects

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▲ Partnerships	▲ Project governance and risk management

IT governance

36   Information technology (IT) governance is a sub-discipline of organisational governance. It relates to leadership, organisational structures, policies, and processes that ensure that information technology supports Council strategies and objectives. IT governance should also support the management and oversight of the Council's business as usual activities.

37   The PSIAS require internal audit to assess whether information technology governance supports the council's strategies and objectives.

Examples

▲ Cybersecurity	▲ IT infrastructure
▲ Strategies and policies	▲ IT systems development

Questions for the committee to consider ✎

38   As part of our preparations for the audit work programme for 2025/26, the Committee is invited to express a view on any areas it feels should be considered a priority for internal audit work. In considering this, relevant questions may include the following:

▲ For any of the Council's strategic risks, are there any which the Committee would like internal audit to look at, to provide additional assurance about arrangements for the management of the risk?

▲ What are the most significant threats to the achievement of the Council's objectives and priorities?

▲ Are there any of the 11 key assurance areas which the Committee feels internal audit should pay particular attention to, and to provide additional comfort that arrangements are operating effectively?

▲ Are there any specific elements within the 11 key assurance areas that the Committee would like internal audit to look at during 2025/26?

▲ Irrespective of the assurance areas, risks and Council priorities, does the Committee have any specific suggestions for internal audit assignments in 2025/26?

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Next steps

39   Following consultation with the Committee we will hold further discussions with officers to understand their views on the priorities for internal audit work over the next year. These meetings will take between December 2024 and February 2025.

40   Alongside this we will continue to take account of emerging issues relevant to the public sector as well as any specific sectoral risks or developments including any relevant changes to legislation. We will also continue to review Council committee papers and other relevant background information to ensure we have an up-to-date picture of the challenges and issues facing the Council.

41   Information collected will be used to develop the indicative long list of audits to be included in the 2025/26 internal audit work programme. This will be brought to the Committee for approval in March 2025.

42   Our risk assessment and the programme of work will continue to be updated and revisited throughout the year to ensure audit work continues to target priority areas.

THE OPINION FRAMEWORK

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1 The Audit Universe

The audit universe represents all areas across the council that Veritau has identified as being auditable. The universe is broadly structured as follows:

- ▲ Corporate and cross-cutting
- ▲ Key financial systems
- ▲ Service areas
- ▲ ICT and technical

2 11 Key Assurance Areas

- Strategic Planning
- Organisational governance
- Financial governance
- Risk management
- Information governance
- Performance management and data quality
- Procurement and contract management
- People management
- Asset management
- Programmes and project management
- IT Governance

3 Key Corporate Risks

- ▲ Balanced budget
- ▲ Children's social care
- ▲ Adult's social care
- ▲ Unlawful decisions
- ▲ Serious accident / death
- ▲ Recruitment / retention
- ▲ Cyber security
- ▲ Corporate governance
- ▲ Middlesbrough Development Corporation (impact)
- ▲ Failed partnerships
- ▲ Children's safeguarding
- ▲ Transformation
- ▲ Middlesbrough Development Corporation (governance)
- ▲ Social cohesion and democratic resilience

ⓘ Having evaluated all potential audits against the opinion framework in steps 1 to 4, audits are prioritised for inclusion in the internal audit work programme.

5 Internal Audit Work Programme

4 Council Ambitions

- ▲ Council ambitions are fully documented in the 2024-2027 Council Plan.
- ▲ There are four ambitions including economic growth, health and wellbeing, communities, and delivering best value.