

Non-Executive Report of the: Audit Committee 13 May 2020	
Report of: Asmat Hussain, Corporate Director, Governance and Monitoring Officer	Classification: Open (Unrestricted)
Internal Audit and Anti-Fraud Annual Plan 2020/21	

Originating Officer(s)	Paul Rock
Wards affected	(All Wards);

Executive Summary

The following report presents the draft Internal Audit Strategy for 2020 to 2023 and the annual Internal Audit and Anti-Fraud Plan for 2020/21 for the Audit Committee's review.

In addition, this report advises the Audit Committee of the following changes in Internal Audit practice that will be implemented from April 2020:

- New Issues based reporting.
- New assurance opinion scale and definitions.
- New issue/recommendation risk rating definitions.
- A revised process for the follow up of agreed management actions.
- The future reporting arrangements to Audit Committee.

Recommendations:

The Audit Committee is recommended to:

1. Agree the Internal Audit Strategy for 2020 to 2023
2. Note the draft Internal Audit and Anti-Fraud plan for 2020/21 which will need to be revised.
3. Note the changes to internal audit practice to be implemented from 2020/21.

1. REASONS FOR THE DECISIONS

- 1.1 The Accounts and Audit Regulations 2015 state that a relevant authority must ensure that it has a sound system of internal control which:
- facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - ensures that the financial and operational management of the authority is effective; and
 - includes effective arrangements for the management of risk.
- 1.2 The Audit Committee has responsibility for oversight of the arrangements for governance, risk management and control and this report assists the Committee in discharging its responsibilities.

2. ALTERNATIVE OPTIONS

- 2.1 None.

3. DETAILS OF THE REPORT

Internal Audit Strategy 2020 to 2023

- 3.1 Whilst not a requirement of the Public Sector Internal Audit Standards, it is considered good practice for Internal Audit to adopt a more strategic approach to achieving its vision and mission, thereby positioning itself to better meet the expectations of its internal and external stakeholders. We have therefore prepared a three year strategy.
- 3.2 The Internal Audit Strategy sets out the medium term direction of the Internal Audit service. The strategy outlines what the priorities of the service will be going forward.
- 3.3 The strategy is supported by the Internal Audit Charter, the annual Internal Audit and Counter Fraud Plan, as well as the Quality Assurance and Improvement Programme which outlines service development actions.
- 3.4 It is our intention that this strategy will be reviewed annually and presented to the Corporate Leadership Team (CLT) and the Audit Committee for review and agreement. There are separate organisational strategies for risk and counter fraud.
- 3.5 The priorities we have identified will support us in achieving our new vision:

“To be a high performing internal audit service that supports the organisation in achieving its objectives, meets the expectations of our internal and external stakeholders, and is recognised as a critical friend and trusted advisor helping

to unlock organisational improvement through better governance, risk management and internal control.”

- 3.6 In summary, our priorities and actions in year 1 are focussed on the internal audit service itself and areas we would like to improve, as well as raising our profile with the Corporate Leadership Team, Senior Management at Tower Hamlets Homes and the Council’s Members.
- 3.7 In years 2 and 3 we will be aiming to increasing our added value activity, as well as exploring income generating opportunities and reducing our costs.
- 3.8 A copy of the Internal Audit Strategy is attached at Appendix A. The strategy was agreed by CLT on the 17th March 2020.

Recommendation

- 3.9 The Audit Committee to review and agree the Internal Audit Strategy.

Internal Audit and Anti-Fraud Plan 2020/21

- 3.10 The Public Sector Internal Audit Standards require the Head of Internal Audit to establish a risk-based plan that sets out the priorities of the internal audit activity which should be consistent with the Council’s strategies and outcomes.
- 3.11 Preparation of the plan began in January 2020 and continued through to early March when it was presented to CLT for their agreement. In preparing the plan we:
- Consulted with Corporate and Divisional Directors and the Chief Executive to understand the Council’s current strategies, key business objectives, the associated risks and assurance requirements.
 - Considered the Council’s risk maturity and reviewed the Directorate and Corporate Risk Registers.
 - Considered national and local risks through research and discussion with peers.
 - Considered the outcomes of our previous internal audit and anti-fraud activity.
 - Reviewed and updated our audit universe (a record of all auditable activities).
 - Considered what other assurance providers (if any) will be inspecting the Council in the coming year and whether we can place reliance on their work.
- 3.12 A copy of the proposed audit plan that was reviewed and agreed by CLT on the 17th March 2020 is attached at Appendix B. Clearly this plan was prepared before the pandemic was declared and the stringent social distancing

measures were introduced. Unfortunately this plan, at least in its current form, is unlikely to be deliverable. At present it's unclear how long the pandemic and social distancing measures will last. We need to review this plan and take into account audits that need to be carried forward from 2019/20, new and emerging risks as a result of the current crisis and changes to the strategic focus and day to day operations of the Council, as well as our own audit and anti-fraud resources. Some of these factors won't be clear for at least a few more weeks or months.

- 3.13 We would normally present this plan for the Committee's review and agreement. However, in the circumstances we are presenting the plan to the Committee for information and are committed to updating the plan and present a new plan for agreement at the next available Audit Committee. In the meantime the Internal Audit Team will be focussed on delivering the outstanding audits from the 2019/20 plan and preparing the annual opinion and Annual Governance Statement.

Recommendation

- 3.14 The Audit Committee to note the draft plan and agree that a revised plan can be presented at the next available Audit Committee.

Changes to Internal Audit Practice

New Report Format and Issues Based Reporting

- 3.15 From April 2020 we are implementing a new report template and an optional issued based reporting methodology.
- 3.16 Historically, when Internal Audit has identified an issue in the system being audited a recommendation is made to mitigate the resulting risk. Whilst internal auditors are experts in governance, risk management and control, it is not practical to be experts in every aspect of the Council's operations. There is therefore a risk that the recommendations we make may not be the most appropriate solution.
- 3.17 In issues based reporting, internal audit will clearly describe the issue and the resulting risk, but then invite management to identify the most appropriate solution to mitigate the risk. If requested by management, internal audit will offer further advice and guidance.
- 3.18 This approach to reporting has the advantage of encouraging management to identify the best solution, whilst still providing internal audit the opportunity to challenge if, in our professional view, the proposed management actions will not sufficiently mitigate the risk. In other local authorities this has resulted in increased engagement with management and improvements in the timely implementation of agreed management actions (see later in the report).
- 3.19 There may still be occasions where a recommendation from Internal Audit is appropriate, and for this reason we have decided to adopt an optional issues

based reporting approach. Issues based reporting will be the preferred but not exclusive method of reporting from April 2020 onwards.

- 3.20 In addition to changing the template and approach to reporting issues we are also changing the standard circulation of final audit reports to routinely include the appropriate Lead Cabinet Member and the Mayor. Members are a key stakeholder for Internal Audit and we must report to them regularly and in a transparency manner.
- 3.21 The report template and reporting methodology will remain under close review over the coming months.

Assurance Scale and Opinion Definitions

- 3.22 It is good practice to periodically review the way we define the assurance opinions we provide to ensure this meets the needs of Internal Audit and the Council.
- 3.23 During 2019, the Chartered Institute of Public Finance and Accountancy (CIPFA) supported by the London Audit Group and others reviewed the different scales and opinions in use across the public sector. The results of this work have led to a recommendation to adopt the following four point scale and opinions which we have accepted and will implement from April 2020 for both internal audits and the overall annual opinion.
- 3.24 The new scaled assurance opinions are shown in Table 2 below.

Table 1 – Assurance Opinions

 Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
 Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
 Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and/or control to effectively manage risks to the achievement of objectives in the area audited.
 No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and/or control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Issue / Recommendation Risk Definitions

3.25 We have also reviewed the definitions of our risk priorities and will be adopting the following from April 2020 onwards:

Table 3 – Risk Definitions

 High	A fundamental weaknesses in governance, risk management and/or control where there is substantial risk of loss, fraud, error, impropriety, poor value for money, or failure to achieve organisational objectives. If these risks materialise it could lead to a significant adverse impact on the Council. Urgent remedial action is requirement by management.
 Medium	A weakness in the governance, risk management and/or controls which, although not fundamental, relate to shortcomings which expose individual systems to a less immediate level of risk and/or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
 Low	A minor weakness in governance, risk management and/or control that individually has little impact but would benefit from improvement to develop effectiveness and/or efficiency.

Follow Up of Agreed Management Actions

- 3.26 The Public Sector Internal Audit Standards requires the Head of Internal Audit to establish a follow-up process to monitor and ensure that management actions have been effectively implemented, or that Senior Management has agreed to accept the risk of not taking action.
- 3.27 Currently we follow up recommendations in full approximately 6 months after the final report was issued. This means that high priority recommendations, which often require immediate action, aren't followed up on a timely basis and sometimes aren't actioned by management until prompted by the request from Internal Audit. In addition, analysis of management's implementation of agreed actions has revealed that only 65% of actions are being implemented; this is low and we would expect to see 90% of recommendations being implemented.
- 3.28 To improve the timeliness of our follow up and management's responses we will be following up agreed management actions as follows:
- 3.29 Every two months we will issue a Tracker to the appropriate Corporate Director which identifies every incomplete management action. The Tracker will record the original issue, risk rating, agreed action, responsible officer and the implementation date.

- 3.30 The Tracker will provide the Corporate Director with oversight over their Directorate's actions; it can be used to inform discussions at Divisional Leadership Team meetings and to seek/record updates when required.
- 3.31 In response to the Tracker, we will request an update from management on at least due or overdue recommendations. We will then review the responses and judge if and how to follow up.
- 3.32 It is our intention that for high risk issues we will always follow up and test whether the action has been effectively implemented. For medium risk issues we will exercise our professional judgement on whether to follow up and how much testing to undertake. For low risk issues, other than seeking an update from management, we will not follow up any further.
- 3.33 The benefits to this process include:
- Improved oversight of risks and agreed actions for the Corporate and Divisional Directors.
 - Timely follow up of issues, recommendations and agreed actions.
 - Improved implementation of agreed management actions.
 - Better, targeted use of internal audit resources.
 - Adherence to recommendations arising from the 2017 External Quality Assurance inspection of Internal Audit.
 - Improvement in the governance, risk management and control processes.

Improved Reporting & Increased Management Accountability to the Audit Committee

- 3.34 Going forward we intend to increase the detail and transparency in our reporting to Audit Committee.
- 3.35 For internal audit activity we currently report which audits have been finalised and include a summary of the opinion and key issues. We also report the whole number and percentage of actions implemented by management.
- 3.36 From April 2020 we will be reporting the following additional information to the Audit Committee:
- Details of draft reports issued to management for their response, including the date the report was issued and the due date for management responses (3 weeks after issue).
 - Details, by report and risk rating, of agreed management actions that have been implemented, partially implemented, superseded or are overdue.
 - Details of which audits have been deferred or cancelled with a supporting explanation. The Audit Committee will maintain oversight of

the plan and may direct Internal Audit to undertake audits that were previously deferred or cancelled.

- 3.37 This level of detail will better support the Audit Committee in its role of oversight over both the Internal Audit activity and management's responsiveness in addressing issues and risks.

4. EQUALITIES IMPLICATIONS

- 4.1 There are no specific statutory implications.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 Other than the Accounts and Audit Regulations 2015 there are no other statutory implications.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 Other than the requirements on the authority and responsible financial officer set out in the Accounts and Audit Regulations 2015, there are no significant financial implications.

7. COMMENTS OF LEGAL SERVICES

- 7.1 This report is compliant with the Council's legal duties in respect of risk and internal audit. It also demonstrates compliance with the Corporate Director Resources' statutory duties under s.151 of the Local Government Act 1972.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix A Internal Audit Strategy for 2020 to 2023
- Appendix B Draft Internal Audit and Anti Fraud Plan for 2020/21

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report

- NONE

Officer contact details for documents:

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