

## **Appendix 2: Internal Audit Strategy 2020/21**

### **Contents:**

1. Introduction
2. Objectives
3. Resources
4. Approach to preparing the internal audit plan
5. Approach to delivering the internal audit plan
6. Quality assurance
7. Reporting, including rating definitions
8. Annual opinion
9. Follow up of findings and agreed action plans
10. Internal audit performance monitoring

### **1. Introduction**

The Internal Audit service will be delivered in accordance with the Internal Audit Charter.

The work of Internal Audit is structured through an approved Internal Audit Plan. This is compiled at least annually prior to the commencement of each financial year and reviewed periodically to reflect any relevant changes.

The Internal Audit plan is driven by the Council's organisational objectives and priorities, and the risks that may prevent the Council from meeting those priorities.

### **2. Objectives**

Internal Audit will provide independent and objective assurance to the organisation, its Members, senior management and in particular to the Chief Operating Officer to support them in discharging their responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is the Council's intention to provide a best practice, cost efficient Internal Audit service which adds value to the organisations it serves.

The Internal Audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the Council's objectives.

Under the direction of a suitably qualified and experienced Head of Assurance, Internal Audit will:

- Provide management and Members with an independent, objective assurance and consulting activity designed to add value and improve the Council's operations.
- Assist the Audit Committees to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
- Drive organisational change to improve processes and service performance;
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;
- Work closely with other assurance providers to share information and provide a value for money assurance service and;
- Participate in local and national bodies and working groups to influence agendas and

developments within the profession.

Internal Audit will ensure where possible that it is not involved in the design, installation and operation of controls so as to compromise its independence and objectivity. However, Internal Audit will offer advice on the design of new internal controls in accordance with best practice.

The Head of Assurance does however have strategic responsibility for Risk Management, Insurance and Counter Fraud. Since this role may involve establishing and maintaining the control environment in these areas, these functions will be audited independently when appropriate by one of the co-sourced providers and aided where necessary by the Audit Manager who has no remit outside of Internal Audit. The co-sourced providers will report directly to the Finance Director in these instances. Internal Auditors have no other operational responsibilities towards the systems and functions audited.

### **3. Resources**

The Internal Audit service is provided by a small in-house team, focusing on stakeholder management, solid ongoing working relationships and providing detailed local knowledge. The in-house team is supported by externally provided resources to enable the Council to commission the volumes and specialist skills as required.

In-house skills are refreshed, in line with best practice through such bodies as CIPFA's Better Governance Forum and the London Audit Group. Appropriate training is identified through the Council's appraisal process and Continued Professional Development of qualified staff.

### **4. Approach to preparing the Internal Audit plan**

The work of Internal Audit is structured through an approved Internal Audit Plan. This is compiled at least annually prior to the commencement of each financial year and reviewed periodically to reflect any relevant changes.

All London Borough of Barking and Dagenham's activities (including activities delivered by external providers) and legal entities are within the scope of Internal Audit. As a result, the Internal Audit plan includes risk-based audit activity – focusing on Council's risks and not those of the entities which may be aligned or may differ – in the Council's related entities. The Internal Audit activity will not cover all activities of the related entities, although the entities may request this activity at a cost to the entity.

Internal Audit determines what areas within its scope should be included within the annual audit plan by adopting an independent risk-based approach. Internal Audit does not necessarily cover all potential scope areas every year.

The internal audit plan is driven by the Council's organisational objectives and priorities, and the risks that may prevent the Council from meeting those priorities. This has been achieved through:

- Understanding the Council's vision for the borough and priorities.
- Identifying the auditable areas within the Council aligned to the 'Service Delivery Blocks'.
- Engaging with management throughout the Council to understand key risks, areas of significant change, assurance work to date and other assurance providers.
- Engaging with external audit to consult on audit plans and to seek opportunities for co-operation in the conduct of audit work.
- Understanding emerging issues and potential audit areas from sector and assurance knowledge and understanding.

## 5. Approach to delivering the Internal Audit plan

The Internal Audit plan will be delivered in line with the Internal Audit Manual. This includes the following key steps:

- 1) Preparation for an audit, including research, a planning / scoping meeting and production of a written Terms of Reference.
- 2) Fieldwork, in line with the stated audit approach in the Terms of Reference. During fieldwork, the auditors will keep the key audit contact updated with progress and potential issues arising. Fieldwork will conclude with an exit meeting confirming all issues arising and discussion of action plans to address.
- 3) Formal reporting of the audit objective and scope, issues identified and agreed action plans. The reporting process will include issue of a draft to confirm factual accuracy and agreement of actions plans prior to finalising.

Terms of Reference and Internal Audit reports will include the relevant Strategic Director.

It should be noted that circumstances outside of the control of Internal Audit or service management may prevent an audit from starting as planned or indeed being finished as planned once started. Such occasions will be rare but include short-notice external inspections of the service such as Ofsted or unforeseen emergency demands on either the service or Internal Audit.

## 6. Quality assurance

Quality will be assured by adherence to professional auditing standards and through supervision by senior audit staff. The internal audit service is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- The relevant Code of Ethics for the professional bodies that members of the service are members of, such as the Chartered Institute of Internal Auditors and the six accountancy professions that constitute the CCAB;
- UK Public Sector Internal Audit Standards (PSIAS);
- All Council Policies and Procedures; and
- All relevant legislation.

In accordance with the Accounts & Audit Regulations 2015, an annual review of internal audit against the PSIAS will be undertaken. This will be conducted externally at least once every five years in line with PSIAS requirements. Results of reviews will be reported to the Audit and Standards Committee. The Head of Assurance may also carry out the external reviews of other London Borough Internal Audit services as part of reciprocal arrangements in place.

## 7. Reporting, including rating definitions

At the end of each audit, the Head of Assurance or designee will prepare a written report detailing the audit objective and scope, findings and agreed action plans.

Each audit finding will be rated critical, high, medium or low risk in line with the following risk rating definitions:

<b>Critical</b> ●●	Immediate and significant action required. A finding that could cause: <ul style="list-style-type: none"><li>• Life threatening or multiple serious injuries or prolonged work place stress.</li><li>• Severe impact on morale &amp; service performance (e.g. mass strike actions); or</li></ul>
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	<ul style="list-style-type: none"> <li>• Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny (i.e. front-page headlines, TV). Possible criminal or high profile civil action against the Council, members or officers; or</li> <li>• Cessation of core activities, strategies not consistent with government's agenda, trends show service is degraded. Failure of major projects, elected Members &amp; Senior Directors are required to intervene; or</li> <li>• Major financial loss, significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council. Critical breach in laws and regulations that could result in material fines or consequences.</li> </ul>
<b>High</b> ●	<p>Action required promptly and to commence as soon as practicable where significant changes are necessary. A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale &amp; performance of staff; or</li> <li>• Significant impact on the reputation or brand of the organisation. Scrutiny required by external agencies, inspectorates, regulators etc. Unfavourable external media coverage. Noticeable impact on public opinion; or</li> <li>• Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome medium-term difficulties; or</li> <li>• High financial loss, significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences.</li> </ul>
<b>Medium</b> ●	<p>A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale &amp; performance of staff; or</li> <li>• Moderate impact on the reputation or brand of the organisation. Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage; or</li> <li>• Significant short-term disruption of non-core activities. Standing orders occasionally not complied with, or services do not fully meet needs. Service action will be required; or</li> <li>• Medium financial loss, small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences.</li> </ul>
<b>Low</b> ●	<p>A finding that could cause:</p> <ul style="list-style-type: none"> <li>• Minor injuries or stress with no workdays lost or minimal medical treatment, no impact on staff morale; or</li> <li>• Minor impact on the reputation of the organisation; or</li> <li>• Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule; or</li> <li>• Handled within normal day to day routines; or</li> <li>• Minimal financial loss, minimal effect on project budget/cost.</li> </ul>

Each audit report will give an overall assurance level of substantial, reasonable, limited or no assurance, in line with the following assurance level definitions:

<b>Substantial</b> ●	There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Findings will normally only be Advice and Best Practice.
<b>Reasonable</b> ●	An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority findings indicating weaknesses, but these do not undermine the system's overall integrity. Any Critical findings will prevent this assessment, and any High findings would need to be mitigated by significant strengths elsewhere.

<b>Limited</b> ●	There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High findings indicating significant failings. Any Critical findings would need to be mitigated by significant strengths elsewhere.
<b>No</b> ●	There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.

Reports will be distributed to the key contacts detailed in the audit Terms of Reference, including the appropriate senior manager and relevant strategic director. Reports rated 'No' or 'Limited' assurance will be provided in full to the Assurance Group.

Summary reports will be provided to the Assurance Group and the Audit and Standards Committee quarterly. These will detail changes to the Internal Audit plan, progress against the plan, summaries of 'Limited' or 'No' assurance reports, performance of Internal Audit in delivery of its service and management's performance in implementing critical and high rated findings.

## 8. Annual Opinion

Internal Audit provides an annual overall opinion of the internal control environment based on the results of audit work conducted. In arriving at the opinion, the Head of Assurance also places reliance on other assurance activities and the governance framework and risk management processes in place.

This annual opinion is reported to the Audit and Standards Committee and the Assurance Group and forms an important part of the formation of the Annual Governance Statement.

## 9. Follow up of findings and agreed action plans

Internal Audit will be responsible for appropriate follow-up of critical and high rated audit findings and validation of agreed action plans. Management provide corroborating evidence to the auditor demonstrating that the recommendations made have been implemented and a risk-based approach, focusing on critical and high rated findings, is taken to review and validate the information provided.

Internal Audit will perform a full follow up of an area where the audit rating was 'No Assurance' in the following year.

Findings will remain open until cleared by Internal Audit or the Audit and Standards Committee.

Where reasonable progress is not achieved in the addressing findings, the Audit and Standards Committee may request that the responsible manager / Strategic Director prepare and/or present a report to the Audit and Standards Committee setting out the action plan to address the findings and how residual risks are to be addressed until the action plan is fully delivered.

## 10. Internal Audit performance monitoring

The following performance indicators will be reported against quarterly to the Assurance Group and the Audit and Standards Committee:

Purpose	Target	What it measures
% of Audit Plan completed (Audits at draft report stage)	>25% by end of Q2	Delivery measure
	>50% by end of Q3	
	>80% by end of Q4	
	100% by end of May of the following year	

Meet standards of Public Sector Internal Audit Standards	Substantial assurance or above from annual review	Compliant with professional standards
High Risk Recommendations not addressed within timescales	<5%	Delivery measure
Overall Client Satisfaction	> 85% satisfied or very satisfied over rolling 12-month period	Customer satisfaction