

# Appendix 1

## Indicative Internal Audit Plan

(2021/2022)

## Internal Audit Plan

### 1. Background

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- 1.1 The definition of internal audit is set out in the Public Sector Internal Audit Standards (PSIAS): *“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.”*
- 1.2 Internal audit contributes to the Council achieving its key priorities by helping to promote a secure and robust internal control environment, which enables a focus on achieving the key priorities.
- 1.3 Internal audit also supports the Executive Director of Resources in discharging his/her statutory duties. The following are two key pieces of legislation that internal audit supports the Executive Director of Resources to comply with:
- i. Section 151 of the Local Government Act 1972. The Executive Director of Resources, as the Council’s Section 151 Officer<sup>1</sup>, is responsible under the Local Government Act for ensuring that there are arrangements in place for the proper administration of the authority’s financial affairs. The work of internal audit is an important source of information for the Director in exercising his/her responsibility for financial administration.
  - ii. The Accounts and Audit Regulations state that ‘A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’. The work of internal audit provides a substantial element of this requirement.
- 1.4 ‘Effective internal audit’ is defined by the Department for Communities and Local Government as compliance with the Public Sector Internal Audit Standards (PSIAS) and CIPFA’s Local Government Application Note for the PSIAS.
- 1.5 The PSIAS set out the standards for internal audit and include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the ‘Board’. Within the Council, the Audit & Governance Committee fulfils the key duties of the Board laid out in the PSIAS. This document sets out the proposed plan for 2021-22.

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<sup>1</sup> The sec 151 statutory responsibilities are to be passed to the newly appointed Director of Finance.

## 2. The Planning Process

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- 2.1 The overall purpose of the Internal Audit work plan is to provide the framework for the use of audit resources and a yardstick for measuring audit performance.
- 2.2 The PSIAS Performance Standard 2010 - Planning states that: *'The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.'* Within Reading Borough Council (RBC), the role of Chief Audit Executive is undertaken by the Chief Auditor.
- 2.3 The standards refer to the need for the risk-based plan to take into account the requirement to produce an annual internal audit opinion and report that is used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work. There also needs to be a balance between breadth (taking a broad look at governance and risk management) and depth (drilling down into specific areas where internal audit can provide valuable insight.)
- 2.4 In line with the PSIAS the proposed audit plan has been devised adopting a risk-based approach. The information which has been used to prepare our risk assessment and proposed internal audit plan has been collected and collated from a number of different sources. The starting point for a risk-based audit approach is an understanding of the Council's objectives and risks. This has been achieved by reviewing the Council's Strategic risk register, Corporate Plan and minutes of officer and Council meetings. Directors and Assistant Directors were consulted for areas to be included in the audit plan and our own knowledge and experience of Council services was also used to inform our subsequent risk assessment. This information is used to inform and design the audit plan.

### 3. The Internal Audit Plan

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- 3.1 The outputs from the planning process have been prioritised to produce a plan that balances the following:
- the requirement to give an objective and evidenced based opinion on aspects of governance, risk management and internal control;
  - the requirement for internal audit to add value through improving controls, streamlining processes and supporting corporate priorities;
  - the need to retain a contingency element to remain responsive to emerging risks; and
  - the resource and skill mix available to undertake the work.
- 3.2 The Chief Auditor in liaison with the sec 151 Officer will keep progress against the audit plan, and the content of the plan itself under review. The Corporate Management Team and the Audit and Governance Committee will also be advised of performance against the Audit Pan and be kept informed of the audits undertaken.
- 3.3 The indicative Internal Audit programme for 2021-2022 has been prepared in line with the PSIAS. A risk-based approach has been used to prioritise internal audit work and ensure there is sufficient coverage and internal audit resource to provide an evidence-based assurance opinion that concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 3.4 The plan is responsive in nature and all efforts will be made to maximise coverage to provide the most effective and agile internal audit service possible that focuses on those key risks facing the organisation throughout the year.

### 4. Resources

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- 4.1 The audit plan needs to be deliverable within available resources and the achievement of the audit plan is based on the assumption that the current internal audit structure will remain essentially unaltered and intact throughout the year. Resource requirements are reviewed each year as part of the audit planning process and are discussed with the sec 151 officer. The current structure allows for 6.0 internal auditors at varying degrees of experience. However, the equivalent of 1.5 FTE is provided to resource the Brighter Future for Children (BfFC) internal audit plan. This does leave the internal audit function with little or no real resilience. This is factored into the audit planning, with the planned reviews based on the experience and resources available.

## 5. Individual Audits

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- 5.1 In determining the timing of our individual audits, we will seek to agree a date which is convenient and ensures the availability of key management and staff.
- 5.2 All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the framework of internal control, risk management and governance in operation and to stimulate improvement. Any key (serious) issues arising during the course of the audit review will be promptly reported to the Chief Auditor to determine impact on the scope of the review. Key issues will also be promptly brought to management's attention during the course of the review to enable appropriate remedial action to be taken prior to being formally published in the audit report.
- 5.3 The auditor will draft a report and arrange to meet with management, to ensure factual accuracy of the audit observations and findings and to ensure a proper understanding of the risks to which any action plan relates. These meetings should take place in accordance with dates agreed in the terms of reference or within two weeks of completion of the audit fieldwork, whichever is the sooner.
- 5.4 Management will be required to provide a response to the action plans. Any areas of disagreement between the auditor and management, regarding audit's observations and/or the auditor's assessment of current risk exposure, which cannot be resolved by discussion, will be recorded in the action plans.
- 5.5 Following discussion of the draft report the auditor will draft a clear, concise and constructive report, following a standard format, outlining:
- the overall level of assurance opinion, based on the auditor's professional judgement of the effectiveness of the framework of internal control, risk management and governance;
  - audit recommendations, along with management response and implementation date
  - an executive summary of the key findings and conclusions
  - Details of findings, to include an explanation of the risk and the identified control weaknesses.
  - The final report will be issued in the name of the auditor conducting the review and the Chief Auditor.

## **6. Follow up Reviews**

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- 6.2 Whether or not an audit review is scheduled for a follow up is reliant on the assurance opinion given at the time of the audit. Where significant gaps in the control environment have been identified then the audit will be subject to a follow up by the audit team. The timing of the follow up is very much dependent on available resources, but our aim is to complete the follow up within six to twelve months of completion of the audit.
- 6.3 A summary of Internal Audit recommendations which remain outstanding is reported to the Audit & Governance Committee Quarterly. The status of these recommendations is updated by the action owners and hasn't necessarily been followed up by internal audit. Internal Audit will only follow up those recommendations relating to a report which has been assigned limited assurance.
- 6.4 Prior to reporting to Committee officers responsible for implementing the specific recommendations are asked to update the 'implementation tracker'. Each recommendation is marked with a percentage complete which correlates to a red/amber/green rating depending on the percentage of completeness. Up to 25% complete is marked red, between 26% and 75% complete is amber and over 75% complete is green. However, any recommendations that are less than 50% complete but have exceeded their agreed completion date are also marked red.
- 6.5 Where there is a lack of progress with implementation of audit recommendations the Assistant Director and responsible officer (if they are different) will be asked to attend a meeting of the Committee to explain the difficulties with implementation and the steps they are taking to address them.

## **7. Reports to C.M.T. and the Audit & Governance Committee**

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- 7.1 A status report on internal audit work will be presented to CMT and the Audit and Governance Committee on a quarterly basis (approximately). The purpose of these reports is to provide an update on the progress made against the delivery of the Internal Audit Plan. The report will provide details of audits completed to date, the assurance opinions given, and the number and type of recommendations made. The report will also provide a summary of internal audit performance, planning and resourcing issues.

## 8. Annual Assurance Report

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8.1 A formal annual report to the Audit & Governance Committee and CMT, presenting the Chief Auditor's opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, will be published to enable it to be taken into account within the annual review of the effectiveness of the system of internal audit and in preparing the Corporate Annual Governance Statement. The format of the Chief Auditor's report will follow that set out in the Public Sectors Standards for Internal Audit and will include:

- an opinion on the overall adequacy and effectiveness of the Council's framework of internal control, risk management and governance;
- disclose any qualifications to that opinion, together with the reasons for qualification;
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- any issues considered by the Chief Auditor to be particularly relevant to the Annual Governance Statement;
- A comparison of work undertaken with that planned, with a summary of internal audit performance for the year; and
- Comment on compliance with the Public Sector Standards on Internal Audit and internal audit's quality assurance programme.

## 9. Internal Audit plan

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9.1 The draft internal audit plan of activities proposed for internal audit review during the 2021/22 financial year is shown on the following pages.

Area	Audit risk context	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4
<b>Securing the economic success of Reading</b>						
Local Transport Plan Capital Settlement (Grant Certification)	Terms and conditions of grant determination are not met	It is a requirement that the Head of Audit signs a declaration to confirm that the conditions of funding have been complied with.		●		
Bus Subsidy Grant	Terms and conditions of grant determination are not met	It is a requirement that the Head of Audit signs a declaration to confirm that the conditions of funding have been complied with.		●		
Business Grants (Post Payment) Assurance	The UK Government is responding with measures to mitigate the economic and social impact of the COVID-19 pandemic. The fraud threat posed during emergency situations is higher than at other times, and all public bodies should be attuned to the risks facing their organisations and the public sector. Public bodies can reduce the threat of widespread fraud by integrating low-friction controls into payments where possible and carrying out post-event assurance work.	The audit will review the processes followed to make grant payments, verifying appropriate checks were made. We will also assist with the post-event assurance process to ensure funding is used for its intended purpose.	●			
NHS Test and Trace Grant Determination	Terms and conditions of grant determination are not met	The audit will also seek to ensure that the conditions attached to the Grant Determination have been complied with. Needs to be signed off by 30 June 2021	●			
Community Testing Funding Grant	If the authority fails to comply with grant conditions, or if any overpayment is made under this grant or any amount is paid in error, the Secretary of State may reduce, suspend or withhold grant payments or require the repayment.	It is a requirement that the Head of Audit signs a declaration to confirm that the conditions of funding have been complied with.	●			



Area	Audit risk context	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4
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### Protecting and enhancing the lives of vulnerable adults and children

Adults - Contract Management (deferred from 2020/2021)	Unsatisfactory tracking of supplier performance against contract terms and conditions.	This review was deferred from 2020/2021 due to the services ongoing response to the Covid-19 pandemic. Review governance relating to placement contracts commissioned with external providers.		●		
Rapid Discharge Pathway	A discharge scheme was implemented during the Covid-19 pandemic - rapid discharge pathway where the CCG fund first 6 weeks of care from discharge to enable ASC to assess a person's needs in the community rather than in the acute. Risks are potential delays in discharge once they have been deemed medically fit by health colleagues.	This audit will look at discharge package of care (POC) and assessed POC, along with the scrutiny at charging the CCG and ensuring anyone that was discharged was charged to the CCG. This audit is a direct request of the Executive Director	●			
Transitions from children's social care to adults	Transitions refer to the cases that come to Preparing for Adulthood (PfA) - tightening of process and earlier proactive work with this cohort of people, linking with children's colleagues much earlier in the journey.	Assessment of the controls that have been put in place to ensure that young people are properly transferred between children's and adults' services. This audit is a direct request of the Executive Director				●
Client Contributions Adult Care	The Care Act requires Local Authorities to carry out a detailed needs assessment of all adults who appear to require care and support.	To assess the robustness of the process that determines eligibility for financial support towards care needs to ensure it is accurate, transparent and accessible. The audit will review how client contributions are assessed, checks undertaken to establish assets and savings to determine the ability to contribute to care costs. An assessment on how quickly clients are billed, in relation to the commencement of the care provided.			●	
Housing Benefits	HB is a complex system and vulnerable to fraud and errors and in particular the benefits subsidy claim remains a risk. The DWP expect zero errors and the impact if any subsidy qualification is potentially very large. Failure to reduce Local Authority error sufficiently to avoid loss of Housing Benefit Subsidy	We will undertake a review of the Housing Benefit system. Areas of coverage may include: a) Policies, procedures and set-up of standing data, b) Assessments and backdating, c) Payments, d) Recovery of Overpayments, e) Reconciliations, f) Performance Monitoring, g) fraud Prevention & Detection (compliance with risk-based process)		●		

Area	Audit risk context	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4
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## Ensuring the Council is fit for the future

Corporate Governance Review	Significant governance failings attract huge attention - as they should - and one significant failing can taint a whole sector. Local government organisations are big business and are vitally important to tax payers and service users. They need to ensure that they meet the highest standards and that governance arrangements are not only sound but are seen to be sound.	The purpose of the audit will be to benchmark and map the Council's governance arrangements against the seven general principles as laid out in the CIPFA/SOLACE guidelines. This review commenced in the latter part 2020/2021 and the findings will be used to inform the Annual Governance Statement.	●			
Transparency Code Compliance (Follow up)	The required data may not be published and updated in accordance with the Code.	The review was given limited assurance in 2020/2021. The audit will verify that the Transparency Code has been adopted, systems have been put in place to extract the relevant data from the various systems and data being published is accurate, reliable, timely and in a suitable format.				●
Freedom of Information (Follow up Review)	The introduction of GDPR brings home changes to the processes for dealing with subject access rights and freedom of information requests.	In 2019/2020 we reviewed the process for managing and responding to FOI's and assigned limited assurance. A further follow up early in the 2020/2021W, acknowledged that progress had been made but there was still significant work to do. We will undertake a further review to establish progress.		●		
Records Management & Document Retention Policy (Follow up review)	There are concerns over the length of time documents are held both in paper format and electronic (including microfiche). Failure to comply with data protection/security requirements resulting in financial loss or reputation damage.	An area of concern across services. A review of understanding of and compliance with the Council's retention and disposal policies.				●

Area	Audit risk context	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4
Staff (Grey Fleet) Vehicle Documentation - (Follow up Audit)	Serious or fatal accident involving a Grey Fleet driver for Reading Borough Council, could lead to a Corporate Manslaughter charge if checks were not being undertaken on grey fleet drivers.	This review was given limited assurance in 2020/2021. We will select a sample of managers across the council to confirm that they are reviewing appropriate documents to allow staff to use their own vehicles on behalf of Council business.				●
Furlough Administration	HMRC are carrying out audits on employers who have claimed under the furlough scheme, both to ensure that the conditions for receiving a grant have been met and that the correct amount has been claimed.	Assurance over arrangements for administering the scheme, including compliance with HMRC furlough regulations	●			
Accounts Payable	In testing controls and procedures internal audit is required to test systems controls and examine supporting documentation. With the increase in transaction volume arising from computerised records, internal audit is not able to properly provide assurance without using a proven software assurance tool for analysis.	The areas that Internal Audit is likely to concentrate on are to review creditor and purchasing data for duplicate payments, missing invoices, tax compliance and over payments. By performing simple exception testing Internal Audit will be able to spot internal control weaknesses and provide recommendations for improvements.			●	
Treasury Management	Prudent investment of cash balances which are not needed immediately, gives the Council an additional source of income. Internal audit covers Treasury Management, Borrowing, Lending and Investment Policy, strategy and procedures operated to ensure they are appropriate, adhered to and compliant with the Prudential Code.	The areas that Internal Audit is likely to concentrate on are, reviewing whether the service is operated by properly trained staffed, is risk assessed, whether cash flow statements are maintained, and transactions accurately recorded. Internal audit could also look at whether external service providers are appointed in accordance with the Council procurement manual and written agreements are in place.				●
Accounts Receivable	This system provides material disclosures for the financial statements. The debtor's module is being transferred from the Academy system to Oracle Fusion.	This review will seek to review the process for transferring balances and AR history from the current system to Fusion and verify controls have been set up properly. The audit will also seek to test implementation of audit recommendations which the new system will address, such as improved reporting.		●		

Area	Audit risk context	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4
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### Improving access to decent housing to meet local needs

Housing Allocation Scheme	The housing allocations scheme describes how the Council assesses applications for housing, prioritises each application and decides which applicant will be offered (allocated) a Council home. Audit risks can be summarised as, incorrect prioritisation of applicants, lack of consistency in the approach adopted, inappropriate housing allocations may be made and failure to comply with relevant legislation.	A review of the processes in place around assessment of applications for housing support and making housing allocations. Including a consideration of whether there are adequate controls in place to prevent and deter fraud in this process.		●		
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### Keeping Reading's environment clean, green and safe

Area	Audit risk context	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4
Green Homes BEIS Grant	The GHG scheme sets out to improve low energy performance homes in England by installing Eligible Measures. An initial competition (Phase 1A) was launched in August 2020 with a delivery deadline of March 2021. A second round of the Local Authority competition (Phase 1B) launched in October 2020 with a delivery deadline of 30 September 2021.	The audit will seek to ensure that the conditions attached to the Grant Determination have been complied with. Awaiting clarification from BEIS on timing of sign offs and whether two certifications are required.	●		●	
Climate Change Strategy	Failure to deliver key environmental strategies and plans (New Local Transport plan, climate change. Air quality strategies)	The purpose of the audit is to provide assurance on the adequacy of the corporate framework in meeting the obligations and expectations of the Council in mitigating aspects of, and adapting successfully to, climate change.				●

Area	Audit risk context	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4
Facilities Management	If Facilities Management incidents are not identified captured and resolved, then the conditions of the buildings may deteriorate, and the health and safety of the buildings and their occupants may be compromised. There may also be dissatisfaction with the FM service.	This review will seek to determine whether the council has adequate arrangements in place for undertaking planned and reactive maintenance works in order to protect the value of the Council's property and the health and wellbeing of employees and members of the public. Review the scheduling of work, backlog maintenance and the use of contractors	●			
Waste Operations	Administration not clear and transparent, with no clear performance data and resource allocation.	The audit will encompass commercial waste, bulky waste, monitoring of third-party service providers. The audit will review the controls in relation to setting up new customers on the service, collection of income, managing performance monitoring of the service.				●
Parks & Grounds Maintenance	Administration not clear and transparent, with no clear performance data and resource allocation, with the risk that abuse could occur.	Review of the arrangements around the usage of vehicles and overtime within the parks service. Examine working practices around recording of work and whether it is possible to ascertain if work has been completed according to schedule and vehicle journeys can be explained.	●			

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