



## Internal Audit Plan 2021/22

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| <b>Report to</b>     | <b>Audit and Accounts Committee – 29 March 2021</b> |
| <b>Ward(s):</b>      | All   |
| <b>Key Decision:</b> | No  |
| <b>Appendix 1:</b>   | Internal Audit Charter 2021/22                      |
| <b>Appendix 2:</b>   | Internal Audit Plan 2021/22                         |

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| <b>Papers relied on:</b> | <b>Audit &amp; Accounts Committee 29 June 2020 – Annual Governance Statement</b> |
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### 1 Foreword

The purpose of this report is to present the planned audit work for 2021/22 and the Internal Audit Charter to the Audit & Accounts Committee for approval.

#### **Recommendation to the committee:**

- The Audit & Accounts Committee approve the following:
  - Internal Audit Plan 2021/22
  - Internal Audit Charter 2021/22

## GLOSSARY OF TERMS

| Term  | Definition                            |
|-------|---------------------------------------|
| PSIAS | Public Sector Internal Audit Standard |
|       |                                       |

### **2 Background, corporate objectives and priorities**

- 2.1 It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that the Chief Internal Auditor prepares an Internal Audit Charter and Internal Audit Annual Plan each year.
- 2.2 The work highlighted in the audit plan will be used by the Chief Internal Auditor in forming his annual opinion on the effectiveness of the council's risk management, control and governance processes.

### **3 Internal Audit Charter (appendix 1)**

- 3.1 The Charter provides the framework for the conduct of internal audit and establishes the position of internal audit within the council, including:
- Relationship with Members and Senior Managers
  - The maintenance of internal audit independence and objectivity
  - Authority to access records, personnel and physical property relevant to the performance of engagements
  - Defining the scope of internal audit activities
  - Reporting responsibilities
- 3.2 The following changes have been made to the 2021/22 Internal Audit Charter from the 2020/21 Internal Audit Charter that was approved by the Audit & Accounts Committee on 29 June 2020:
- The year to reflect 2021/22
  - Update the governance framework found in appendix A which is taken from the council's Annual Governance Statement as approved by Audit and Accounts committee on 29 June 2020

### **4 Internal Audit Plan 2021/22 (appendix 2)**

- 4.1 The annual plan identifies the individual audit areas that are necessary for the Chief Internal Auditor to provide an annual opinion on the effectiveness of the council's risk management, control and governance processes.
- 4.2 The plan is divided into two sections, 'Core Systems Audits' and 'Other Key Audits'.

- 4.3 The 'Core Systems Audits' contribute towards providing the external auditor with assurances that the fundamental systems within the council are suitably controlled.
- 4.4 The 'Other Key Audits' are determined by a risk assessment that is based on the following:
- Materiality
  - Control Environment/Vulnerability
  - Sensitivity
  - Management Concern
- 4.5 Following the risk assessment, each audit area is given a risk rating of high, medium or low. With the frequency of the audits being determined on the assessment as follows:
- High Risk – Each Year
  - Medium Risk – Every Two Years
  - Low Risk – Not Reviewed
- 4.6 The Chief Executive, Executive Director of Corporate Services, Executive Director of Borough Development & Deputy Chief Executive and Executive Director of Residents Services were all consulted on the annual audit plan. All were happy with the content of the audit plan.
- 4.7 The software licencing audit scheduled for 2020/21 has been deferred until 2021/22 due to the impact of Covid-19 pandemic on the progress of the project to centralise control over software licencing, as highlighted to the committee on 25 January 2021.
- 4.8 Internal Audit will also have an active presence on the following corporate activities:
- Information Governance Steering Group
  - IT Change Management Board
  - IT Operations Board
  - Shared Service Group
  - Digital Agenda
- 4.9 The audit plan will be completed by the internal audit team which consists of:
- Chief Internal Auditor
  - Senior Auditor
  - Auditor (1.8 fte)
- 4.10 Consultation with the relevant Heads of Service on the timing of the audits will take place once the Audit & Accounts Committee has approved the plan.
- 4.11 A contingency of 75 days is included in the plan to allow for unplanned work. The level of unplanned work will be monitored by the Chief Internal Auditor, in consultation with the Section 151 Officer (Executive Director of Corporate Services), to identify if it will have an impact on the planned audit work.

- 4.12 The Audit and Accounts committee will receive reports throughout the year to inform the committee of progress that is being made against the audit plan. This report will include the following:
- An executive summary report for each audit completed (incl. assurance level and recommendations made)
  - A progress position of outstanding recommendations
  - Planned work for the next period

## 5 **Conclusion**

- 5.1 This report is to present the Audit & Accounts Committee with the Internal Audit Charter that highlights the conduct for internal audit and the Internal Audit Plan for 2021/22 that highlights the work to be carried out during the year to enable the Chief Internal Auditor to provide an annual opinion on the effectiveness of the council's risk management, control and governance processes.

|                        |   |
|------------------------|---|
| <b>Lead officer</b>    | <i>Chief Internal Auditor</i>   |
| <b>Report author</b>   | <i>Paul Gundry<br/>Tel: 01256 845242 email: paul.gundry@basingstoke.gov.uk</i>  |
| <b>Version</b>         | <i>Final</i>  |
| <b>Dated</b>           | 19 February 2021  |
| <b>Status</b>          | Open  |
| <b>Confidentiality</b> | It is considered that information contained within this report (and appendices) do not contain exempt information under the meaning of Schedule 12A of the Local Government Act 1972, as amended, and therefore can be made public. |

**Internal Audit Charter - 2021/22**

1. Internal Audit is a key component of the Council's governance framework, see appendix A. This Charter provides a framework for the conduct of Internal Audit in Basingstoke and Deane Borough Council and has been approved by the Council's Audit & Accounts Committee.
2. The key provisions of this Charter are set out below.

**Internal Audit Service**

The Council's internal audit service is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

**Independence & Objectivity**

The internal audit service will remain free from interference by any element in the Council and its scope shall not be restricted in anyway. It shall be free to review the arrangements of any aspect of service delivery, finance or governance irrespective of whether those arrangement are provided directly or indirectly (via partnerships, contractually or any other business arrangement).

The objectivity, impartiality, integrity and conduct of all internal audit staff must be above reproach at all times.

**Authority**

Internal Auditors are authorised to:

- a). Enter at all times any premises or land occupied by the Council and have access to all council property.
- b). Have access to all records, documents and correspondence relating to any activities of the Council held by Members or employees, if necessary, immediately on demand.

**Confidentiality**

All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for the conduct of internal audit activities. The Chief Internal Auditor and individual audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

**Reporting**

The Chief Internal Auditor shall submit an annual report and formal audit opinion to the Audit & Accounts Committee.

Progress reports demonstrating progress against the approved Audit Plan will be presented to Audit & Accounts Committee throughout the year.

### **3. Legislation**

3.1. The internal function of a local authority arises from two principal pieces of legislation:

- Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of its financial affairs and to ensure that one of the officers (the Chief Financial Officer) has responsibility for the administration of those affairs; and
- The Accounts & Audit Regulations 2015 states:

“A relevant authority must ensure that it has a sound system of internal control which—

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- (b) ensures that the financial and operational management of the authority is effective; and
- (c) includes effective arrangements for the management of risk.”

### **4. Purpose of Internal Audit**

4.1. The internal audit service has been established to:

- Provide independent, objective assurance to the Council on its operations;
- Add value, by assisting management improve the delivery of the Council’s objectives and operations through evaluating and challenging the effectiveness of control, risk management and governance processes; and
- Provide an annual internal audit opinion and report on the Council’s control environment which will be used within the Annual Governance Statement.

### **5. Professionalism**

5.1. The CIPFA statement on the Role of the Chief Financial Officer in local government states that the Chief Financial Officer must:

- Ensure that an effective internal audit function is resourced and maintained;
- Ensure that the authority has put in place effective arrangements for the internal audit of its control environment; and
- Support the authority’s internal audit arrangements.

- 5.2. The internal audit service will govern itself by adhering to the Public Sector Internal Audit Standards (PSIAS).<sup>1</sup>
- 5.3. An annual self-assessment against the PSIAS will be presented annually (June) to the Audit & Accounts Committee.

## **6. Relationship with Members & Senior Management**

### **6.1. Audit & Accounts Committee**

- 6.1.1. The Accounts & Audit (England) Regulations 2015 require the Council to “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.”
- 6.1.2. The Council has established an Audit & Accounts Committee who have the responsibility of ensuring there are effective arrangements for the system of internal audit of the Council.
- 6.1.3. The Chief Internal Auditor shall have:
  - Free and unrestricted access to the Audit & Accounts Committee; and
  - The right to meet with the Chair of the Audit & Accounts Committee and/or relevant Portfolio Holder to discuss any matters or concerns that have arisen from the work of internal audit.

### **6.2. Senior Management**

- 6.2.1. The Chief Internal Auditor reports to the Executive Director of Corporate Services (Section 151 Officer) for the day to day operations.
- 6.2.2. The Chief Internal Auditor will provide the Section 151 Officer (Chief Financial Officer) with the assurances that there is an effective control environment in place and highlight areas for improvement.
- 6.2.3. The Chief Internal Auditor is also a member of the Stewardship Team<sup>2</sup>
- 6.2.4. The Chief Internal Auditor has access to the:
  - Chief Executive;
  - Members including specifically the Chair of Audit & Accounts Committee;
  - All levels of management; and
  - Other Council employees as necessary.

## **7. Independence & Objectivity**

- 7.1. Independence is essential to the effectiveness of the internal audit service so it will remain free from interference in all regards. This shall include, but not limited to matters of audit selection, scope, procedure, frequency, timing and report content.
- 7.2. Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. They must make a balanced assessment of all the

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<sup>1</sup> The PSIAS are based upon the Institute of Internal Auditors mandatory guidance including the definition of internal auditing, the code of ethics, and the Internal Standards for the Professional Practice of Internal Auditing.

<sup>2</sup> The Stewardship Team consists of the Executive Director of Corporate Services, Head of Law & Governance and Monitoring Officer, Head of Human Resources, Communications and Policy, and Chief Internal Auditor and provides advice and guidance to the Strategic Leadership Team on the Council’s governance arrangements.

relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

## **8. Authority & Confidentiality**

- 8.1. To enable internal audit to meet their responsibilities, internal auditors are authorised to enter, at all times, any premises or land occupied by the Council and have access to all council property. They also have the right to have access to all records, documents and correspondence relating to any activities of the Council held by Members or employees, if necessary, immediately on demand.
- 8.2. The records and documents accessed during the course shall only be used for internal auditing purposes. All auditors are responsible and accountable for maintaining the confidentiality of information they receive during their work.

## **9. Internal Audit Management**

9.1. The Chief Internal Auditor will effectively manage and deliver an internal audit service in accordance with this charter.

9.2. The Chief Internal Auditor shall:

- Ensure they have an understanding of the Council's systems, structures and operations so allowing the preparation of strategic and annual audit plans that are closely aligned to the need to provide assurance against the Council's business objectives;
- Review and adjust, if necessary, the annual audit plan in response to changes in the Council's business objectives;
- Report annually an independent opinion on the Council's internal control, governance and risk management environment;
- Ensure that all audit reviews examining the adequacy and effectiveness of the Councils' internal control, governance and risk management environment work is completed to a high standard;
- Undertake an annual review of the development and training needs of internal audit staff and arrange the appropriate training where required;
- Put in place arrangements that ensure internal audit is notified of all suspected or detected instances of fraud, corruption or impropriety; and
- Establish effective relationships with managers at all levels.

## **10. Reporting & Monitoring**

10.1. See appendix B for the flow diagram relating to the reporting and monitoring process.

10.2. Recommendations will be categorised as follows:

| Category         | Definition  | Timescale for Implementation              |
|------------------|---|---|
| Fundamental      | <p>A control weakness that could:</p> <ul style="list-style-type: none"> <li>• Have a <u>major</u> impact in the achievement of the objectives of the system, function or process under review,</li> <li>• Have a <u>major</u> financial impact on the Council,</li> <li>• Breach the law or regulations resulting in fines &amp; consequences which have a <u>major</u> impact on <i>the system, function or process under review, or the Council as a whole,</i></li> <li>• Have a <u>major</u> impact on the reputation of the Council.</li> </ul> | Within 1 month of the final audit report  |
| Significant      | <p>A control weakness that could:</p> <ul style="list-style-type: none"> <li>• Have a <u>moderate</u> impact in the achievement of the objectives of the system, function or process under review,</li> <li>• Have a <u>moderate</u> financial impact on the Council,</li> <li>• Breach of regulations resulting in consequences which have a <u>moderate</u> impact on <i>the system, function or process under review, or the Council as a whole,</i></li> <li>• Have a <u>moderate</u> impact on the reputation of the Council.</li> </ul>         | Within 3 months of the final audit report |
| Merits Attention | <p>A control weakness that could:</p> <ul style="list-style-type: none"> <li>• Have a <u>minor</u> impact in the achievement of the objectives of the system, function or process under review,</li> <li>• Have a <u>minor</u> financial impact on the Council,</li> <li>• Breach of regulations resulting in consequences which have a <u>minor</u> impact on <i>the system, function or process under review,</i></li> <li>• Have a <u>minor</u> impact on the reputation of the Council.</li> </ul>  | Within 3 months of the final audit report |

10.3. The overall evaluation of the system, function or process being audited will be categorised with one of the following assurance statements:

| <b>Category</b>       | <b>Definition</b>  |
|-----------------------|--|
| Full Assurance        | There is a comprehensive system of internal controls in place designed to achieve the system/function/process objectives. These controls are operating effectively and are being consistently applied. |
| Substantial Assurance | Key controls designed to achieve the system/function/process objectives are in place. There are opportunities to enhance/strengthen those controls.  |
| Reasonable Assurance  | Basic controls designed to achieve the system/function/process objectives are in place. Improvements are required if key controls are to be established.   |
| Limited Assurance     | Minimal controls designed to achieve the system/function/process objectives are in place. Significant improvements are required if key controls are to be established.                                 |
| No Assurance          | No controls that achieve the system/function/process objectives are in place.  |

## **11. Quality Assurance Programme**

11.1. An annual review of internal audit based on PSIAS will be carried out by the Chief Internal Auditor. The results of this exercise, along with an improvement plan will be reported to the Audit & Accounts Committee each June.

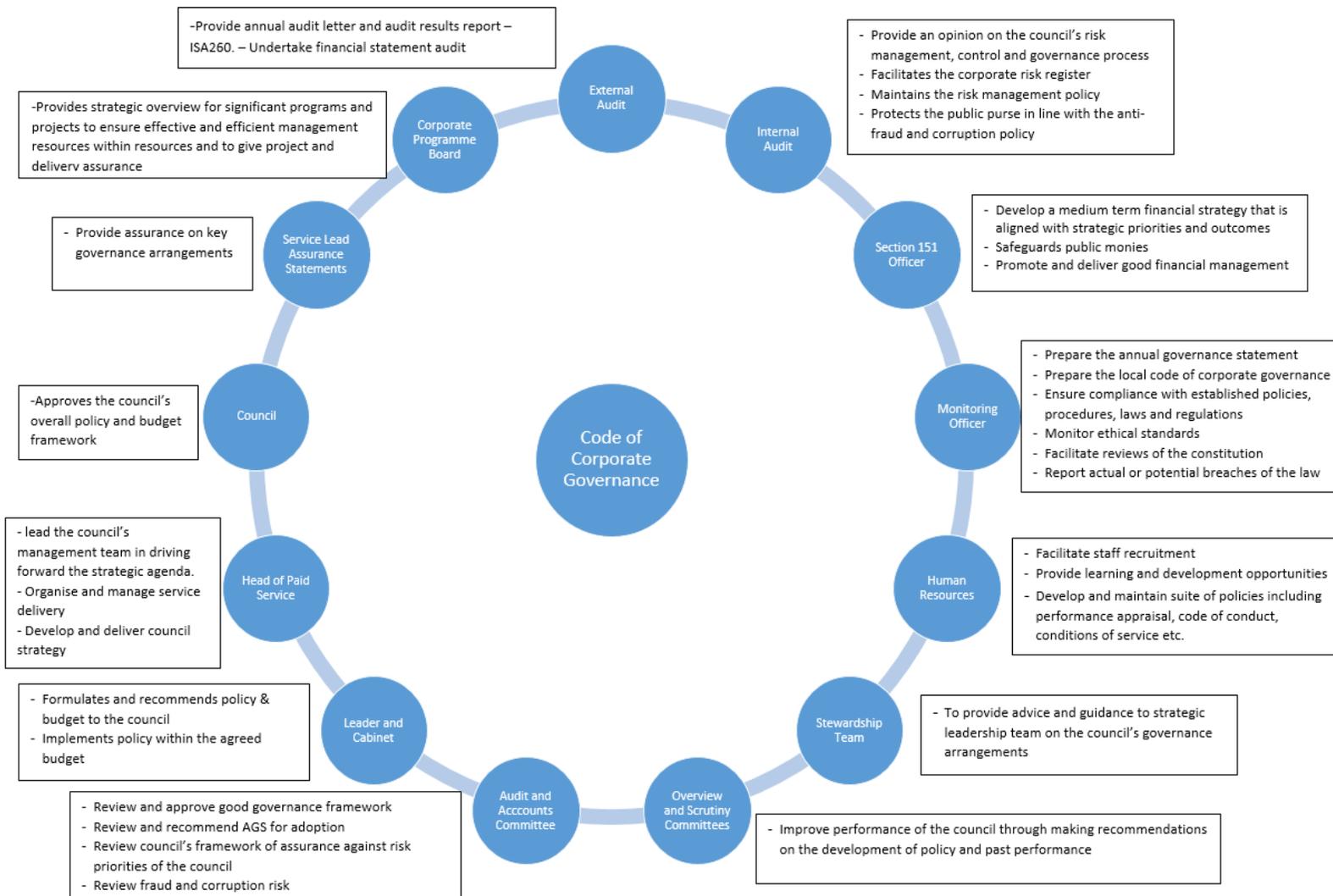
## **12. Relationships with the External Auditor**

12.1. Internal Audit will establish and maintain an open relationship with the external auditor and any other assurance providers. Internal audit will plan its activity so that there is adequacy of audit coverage and to minimise duplication of assurance effort.

## **13. Review of the Charter**

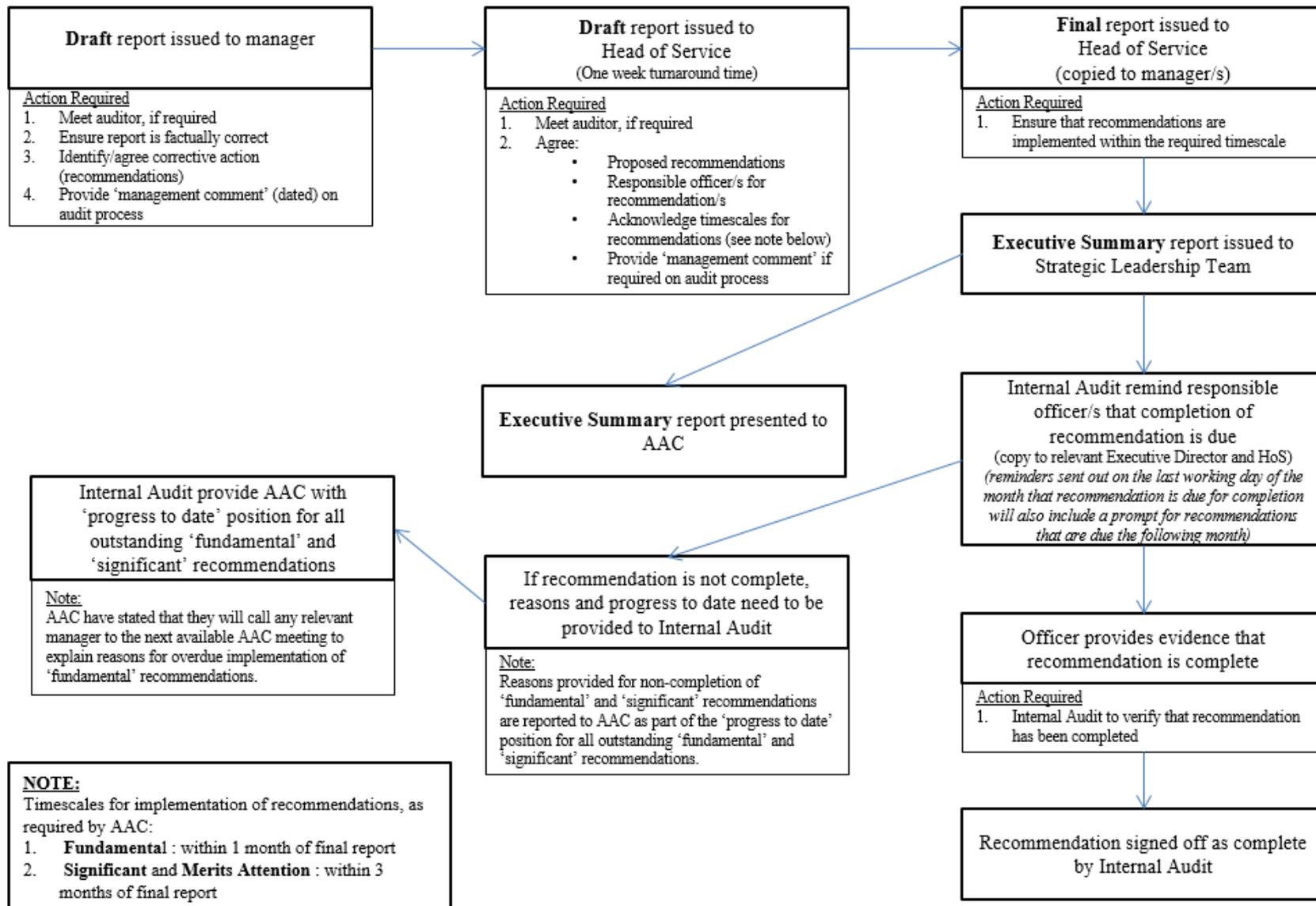
13.1. The Chief Internal Auditor will review the Internal Audit Charter annually and will report the outcome to the Audit & Accounts Committee for approval.

## GOVERNANCE FRAMEWORK (Taken from annual governance statement)



**Appendix B**

**Reporting & Monitoring**



## **Annual Audit Plan**

**1 April 2021 to 31 March 2022**

### **Core Systems Audits** (carried out annually)

- Bank Reconciliation (incl. Income Collection)
- Contract Standing Orders/Contract Management
- Corporate Governance
- Creditors
- Debtors
- Financial Regulations
- Fixed Assets Register
- Housing Benefits Recovery of Overpayments
- Human Resources
- Information Technology
  - Critical Systems
  - Cyber and Network
  - Software Licencing
- Investment Strategy
  - Property Investment
  - Treasury Management
- Local Tax
  - Administration and Billing
  - Recovery and Enforcement

### **Other Key Audits**

#### **High Risk** (carried out annually)

- Refuse Collection Contract
- Project Management
- Risk Management

#### **Medium Risk** (carried out every two years)

- Business Continuity
- Developers Contributions (S.106)
- Community Infrastructure Levy
- Commercial Rents
- Housing – Homelessness
- Manydown Governance Arrangements

Internal Audit Annual Plan approved by:

Audit and Accounts Committee on 29 March 2021