
Subject:	DRAFT INTERNAL AUDIT PLAN 2022-23
Meeting and Date:	Governance Committee – 17th March 2022
Report of:	Christine Parker – Head of Audit Partnership
Decision Type:	Non-key
Classification:	Unrestricted

Purpose of the report:	This report sets out the proposed Internal Audit Plan for 2022/23 detailing a breakdown of audits and an analysis of available days.
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Recommendations:	That Members approve the Council’s Internal Audit Plan for 2022/23
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Summary.

This report sets out the draft plan of work for the forthcoming 12 months for approval.

1.0 Introduction and Background.

- 1.1 The purpose of the Council’s Governance Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority’s financial and non-financial performance to the extent that it affects the Authority’s exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 1.2 In accordance with current best practice, the Governance Committee should “review and assess the annual internal audit work plan”. The purpose of this report is to help the Committee assess whether the East Kent Audit Partnership has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with the professional standards for Internal Auditors.

2.0 Audit Mission & Charter.

- 2.1 The Audit Mission is a simple high-level statement setting out the objectives for the service, this was approved in March 2020 and no changes are currently proposed.

The four East Kent authorities Canterbury City Council (CCC), Dover District Council (DDC), Folkestone & Hythe District Council (F&HDC), and Thanet District Council (TDC) formed the East Kent Audit Partnership (EKAP) in order to deliver a professional, cost effective, efficient, internal audit function. A key aim for the EKAP, supported by an agreed Audit Charter, is to build a resilient service that provides opportunities to share best practice between the four councils and East Kent Services acting as a catalyst for change and improvement to service delivery as well as providing assurance on the governance arrangements in place.

EKAP provides an independent, objective assurance and consulting activity designed to add value and improve the councils’ operations. It helps the partners accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The mission for internal auditing (linked to the definition above) is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight reflecting each Councils' Corporate Objectives.

- 2.2 The Audit Charter is an important document setting out the expectations of how the Internal Audit function will be delivered. Not only does having a Charter and keeping it up to date assist the Council in complying with best practice, but by considering the Audit Charter, the Governance Committee is also demonstrating its effectiveness by ensuring that these mechanisms are in place and are working effectively.
- 2.3 The Audit Charter establishes the purpose, authority, objectives and responsibility of the East Kent Audit Partnership, it goes on to set out the Terms of Reference, Organisational Relationships and Independence, Competence and Standards of Auditors, the Audit Process and in providing an Internal Audit function to the partner councils; as well as the resources required across the four partnership sites and details how the resource requirements will be met.
- 2.4 The Audit Charter is a document that does not materially change from year to year and consequently it was agreed in March 2020 that it be approved for the next three years (to 31st March 2023) with the caveat that should any significant changes be required a revised Charter will be presented for consideration. There have been no required changes during 2021/22 and therefore this document will next be brought back for approval to this Committee in March 2023.

3.0 Risk Based Internal Audit Plan.

- 3.1 The Audit Plan for the year 2022 to 2023 is attached as Annex A and has the main components to support the approved Audit Charter. The plan is produced in accordance with professional guidance, including the Public Sector Internal Audit Standards (PISAS). A draft risk based plan is produced from an audit software database (APACE) maintained by the EKAP which records our risk assessments on each service area based upon previous audit experience, criticality, financial risk, risk of fraud and corruption etc. Amendments have been made following discussions with senior management, taking account of any changes within the Council over the last 12 months, and foreseen changes over the next.
- 3.2 The plan has then been further modified to reflect emerging risks and opportunities identified by the Chief Executive, Directors, and the links to the Council's Corporate Plan and Corporate Risk Register. This methodology ensures that audit resources are targeted to the areas where the work of Internal Audit will be most effective in improving internal controls, the efficiency of service delivery and to facilitate the effective management of identified risks.
- 3.3 Furthermore, wider risks are considered, by keeping abreast of national issues and advice from the auditing profession / firms. The annual "Risk in Focus" report provides an opportunity to track how risk priorities are developing over time. A number of dominant themes are emerging. Climate change and environmental sustainability has gained in prominence more than any other risk type over the past three years. It is a moving target that organisations will have to make continuous efforts to mitigate for decades to come. This should therefore be considered a "forever risk" that is likely to move up the risk rankings over time. Risks related to business continuity, crisis management and disasters response have been heavily impacted by recent events, and the same is true of health, safety & security, Human capital, diversity and talent management and organisational culture. These latter three have a clear human capital element to them. Organisations have been forced to flex and adapt over the past 18 months, protecting their workforces from harm as health risks sharply escalated. As the pandemic has rolled on for longer than many expected, organisations have had to think about the psychological wellbeing of their staff and what socially distanced and remote working conditions mean for staff cohesion

and culture. The top ten identified risks through 'Risk In Focus' survey have been considered for inclusion in the 2022/23 plan as follows;

- 1 **IT Security- Response & Recovery** – It is predicted that Cybersecurity and data security will become somewhat less of a risk over the next three years, although this is relative. It is still expected to dominate the risk rankings and any threat mitigation will come from the fact that organisations are becoming better equipped at managing and minimising the risk of attacks and data breaches. For now, it remains the number one concern. Attention is focussed on response and recovery processes and procedures, and what to do in the event of ransomware events, to be confident to know how to respond if struck and can bring operations back online with minimal disruption by following established protocols. Naturally, the best means for avoiding disruption is by preventing attacks in the first place. This is why the human element is so important. It is estimated that 97% of phishing emails now contain some form of ransomware, and that 95% of IT security breaches result from human error. Staff training and awareness is the most effective way of minimising the likelihood of staff clicking on malicious links and harmful attachments (e.g. .doc, .dot and .exe files). The audit plan for 2022/23 covering this area is part of the EKS Plan which has 30 days for IT Security.
- 2 **Rising Sustainability Regulations** – Arguably more impactful on the Financial and Banking sectors, however the research almost universally spoke of the increasing regulations their organisations face, with attention quickly turning to sustainability reporting. The aims are to make sustainability reporting more consistent, so that investors and the public can use comparable and reliable information. It is not an EKAP function to ensure compliance with regulations, but 'New legislation' is a risk factor we consider for each area within the audit plan. Having considered two key questions in drafting this plan it has been decided not to set any specific time to this area in 22/23, and to maintain a watching brief on how these new regulations may affect the public sector. A) How well developed is the governance around sustainability reporting? For example, are roles and responsibilities clearly defined? B) Does the organisation have a system of prioritising regulations, whether related to sustainability or otherwise, and does it take an appropriately risk-based approach to managing compliance?
- 3 **Accelerated Digitalisation** – the risks and opportunities associated with digitalisation and the pace of this change were highlighted as a priority area of attention. With digitalisation shifting up a gear, the risk is whether the business model is being sufficiently adapted to meet the new digital reality, whether core risk management principles are being embedded into projects. Additionally, IT functions will need to ensure they know exactly what projects are in development and apply appropriate permissions controls so that critical data is not lost or misappropriated. All digital projects throughout the organisation should be mapped to check that this matches the current activities. In the broadest sense, this should check that digital projects, big and small, uphold the same standards expected of more traditional projects directly managed by the IT function, and confirm that there is appropriate oversight from the information security team. Time for a view of Digital/Cloud Based Computing (coupled with a post implementation review of the Tech 1 financial management system) was included in the agreed 2021-22 plan and work has commenced on this and will be completed in Quarter 1 of 2022-23.
- 4 **Workforce Fatigue and Cultural Erosion** – The review elicited opinions of risks not only on talent management and skills shortages, but the impact that remote working and hybrid models might be having on culture, irrespective of any productivity benefits. The lack of social interaction between colleagues may be eroding team cohesion and culture. If people feel less connected to their teammates and are unable to clearly see how their work contributes to the greater good of the organisation and its purpose, they could begin to stray. Disengagement has the potential to increase fraud and other misconduct as staff lose their sense of loyalty and put their own interests before the interests of their colleagues and the organisation. This may be compounded by limited oversight from management, which can result in the weakening of the soft controls environment and poorer internal communications and reporting, increasing the

likelihood of undesirable behaviour. As effective as online collaboration tools and videoconferencing software have been in keeping the wheels turning and people connected virtually, there is no substitute for in-person interaction. It may be too early for internal audit to conduct formal assessments of how effectively behavioural and cultural risk is being managed, given the fluidity of the present situation, the plan does have an allocation which could be used to gain an understanding of efforts being made to promote the organisation's core values and mission, identify what steps the organisation is taking to check in with staff (e.g. staff surveys), measure whether staff turnover is increasing, and how long it takes to fill vacant positions, determine whether talent management (to continuously attract and retain employees) is working, and whether efforts are being made to promote the organisation's core values and mission to establish and maintain a sound and healthy culture.

- 5 **Pandemic Response** – The pandemic has been pervasive, simultaneously impacting employees, suppliers and customers across the globe and for a duration previously not considered a possibility. It goes without saying that organisations should be updating their business continuity plans (BCPs). This will require careful examination of how effective crisis responses have been and BCPs should now include a pandemic scenario, incorporating lessons learned to better respond to similar future crises. These will need to include staff safety, supply chain and cyber risk mitigation measures. Greater resilience can be achieved by covering these basics, putting the organisation on a stronger footing should another pandemic or other crisis event occur. The ability to anticipate and plan for future crises is how organisational resilience is achieved. As these arrangements have been tested throughout 2021 there is no additional time planned for the 22/23 audit plan
- 6 **Financial Resilience** – Last year's Risk in Focus assessment showed that organisations were firmly concentrating on their financial resilience and liquidity, whilst this remains an issue for all organisations, there is a new focus to ensure that key business partners are being monitored. Insolvencies may rise in correlation with the withdrawal of government support, indeed, it has been estimated that insolvency rates will raise by 13%, Services, leisure, hospitality and travel sectors rely on government policy and, approaching two years into the pandemic, the future of businesses in these industries is still in question. Contractor or supplier failure remains a key risk. The longer-term impact of this risk is recognised in the Corporate Risk Register and through the financial modelling and MTPF This area was considered , and whilst no one specific audit review addresses it, the risk will be considered across a number of relevant reviews in 2022-23.
- 7 **Rising Inflation** – Inflation Risk may make organisations more exposed, facing the need to absorb higher costs. If inflation persists and interest rates rise as the pandemic recedes, banks may be forced to tighten monetary policy. The cost of borrowing will increase. A review of Treasury Management was completed in 2020-21 and concluded Substantial Assurance; a further review is not therefore proposed in 2022-23.
- 8 **Climate Change and Sustainability** – Climate change carries significant risks and opportunities. Environmental and sustainability risk is now a core risk topic that has firmly come to the fore over the past 12-18 months. At a top level, this should start with reviewing what strategic actions are being taken. These goals may include minimising environmental impacts such as deforestation, chemical waste, greenhouse gas emissions and water consumption; ensuring human rights and the promotion of economic inclusion through the supply chain; and developing products and services that do not harm people or the planet. Through direct activities and those of contractors and third parties. This area was reviewed in 2021/22 and has been allocated 5 days for further review in 22/23.
- 9 **Supply Chain Strain** – The V-shaped recovery in demand is currently contributing to new inflationary pressures, but a bigger risk than rising costs is short supplies of critical components causing production delays and lost revenues. If organisations are unable to secure vital

supplies, then they cannot provide services. Complicating matters is the unpredictability and unevenness of the economic recovery, which is likely to make demand forecasting a persistent challenge for every link in the supply chain. This may require a change in mindset, from prioritising the lowest price for goods towards greater certainty and resilience. This risk is closely linked to Risks 6 & 7 above; both Contract Monitoring/ Management and CSO Compliance have been recently reviewed in 2021-22.

10 **Health & Safety** – The spread of coronavirus has impacted all manner of risks, however, from a pure health and safety perspective, the challenge is in ensuring that appropriate steps are taken to safeguard the physical and mental wellbeing of staff, customers and suppliers at the same time as maximising productivity and minimising service interruptions. Organisations have a legal obligation to protect their employees and others from harm, so health and safety will remain a prominent risk, even as the pandemic is gradually contained. The HR service has been brought back in house and 10 days have been allocated for a review of Employee Health & Safety in the 2022-23 plan.

3.4 There are insufficient audit resources to review all areas of activity each year. Consequently, the plan is based upon a formal risk assessment that seeks to ensure that all areas of the Council's operations are reviewed within a strategic cycle of audits. In order to provide Members with assurance that internal audit resources are sufficient to give effective coverage across all areas of the Authority's operations, a strategic plan has been included.

3.5 To comply with the best practice, the agreed audit plan should cover a fixed period of no more than 1 year. Members are therefore being asked to approve the 2022/23 plan at the present time, and the future years are shown as indicative plans only, to provide Members with assurance that internal audit resources are sufficient to provide effective coverage across all areas of the Authority's operations within a rolling cycle.

3.6 The plan has been prepared in consultation with the Directors and the Council's statutory s.151 Officer. The plan is also designed to meet the requirements expected by the External Auditors for ensuring key controls are in place for its fundamental systems. This Committee is also part of the consultation process, and its views on the plan of work for 2022/23 are sought to ensure that the Council has an effective internal audit of its activities and Members receive the level of assurance they require to be able to place assurance on the annual governance statement.

3.7 The risk assessment and consultation to date has resulted in;

- 75% Core Assurance Projects- the main Audit Programme
- 3% Fraud Work – fraud awareness, reactive work and investigating potential irregularities
- 0% Corporate Risk – testing the robustness of corporate risk mitigating action
- 22% Other Productive Work – Corporate meetings, follow up, general advice, liaison

Total number of audits 24.

For 2022/23 the days available for carrying out audit is 300 days. When compared to the resources available and working on the basis that the highest risk areas should be reviewed as a priority, the EKAP has sufficient resources to review undertake 24 audits.

The detailed draft audit plan is contained in Appendix A.

4.0 **Benchmarking the level of Internal Audit Provision.**

4.1 Members should have regard to how audit resources within the Council compare to other similar organisations when considering the adequacy and effectiveness of the internal audit plan. The results of benchmarking show that the average number of internal audit days provided by district councils within Kent is circa 400 days annum. The audit plan of Dover District Council of 300 days plus their share of the EKS audit plan totals 343. The Dover plan is therefore 14.25% less well-resourced than the Kent average.

5.0 Head of Internal Audit Opinion of the 2022/23 Internal Audit Plan.

5.1 This report is presented to Members by the Council's Strategic Director (Corporate Resources) whose s.151 responsibility it is to maintain an effective internal audit plan. In the interests of openness and transparency and in order to enable Members to make an informed decision on the internal audit plan presented for their approval consideration should also be given to the opinion of the Head of Internal Audit on the effectiveness of the plan.

5.2 It is the professional opinion of the Head of the East Kent Audit Partnership that the draft 2022/23 internal plan presented for Members' consideration is less well-resourced than the Kent average and accordingly our overall audit opinion at the end of the year will be limited to commenting on the systems of internal control that have been examined. The current resources of the EKAP will allow for an opinion to be given on the Council's key risk areas and systems. This should be sufficient coverage to inform the Annual Governance Statement.

5.3 The Head of the East Kent Audit Partnership highlights that Members either approve the 2022/23 internal audit plan as drafted or they may recommend to Cabinet that additional resources should be allocated to bring the plan up to the Kent average. This would require an additional 57 days per annum, which at an estimated cost per audit day of £350 would cost £19,950 per annum.

6.0 Background Papers.

- Internal Audit Annual Plan 2021/22 - Previously presented to and approved 11 March 2021 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.
- Former Audit Mission, Audit Charter and Strategies - Previously presented to and approved at Governance Committee meetings.

Attachments

Annex A Dover District Council draft 2022/23 Internal Audit Plan

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The officer to whom reference should be made concerning inspection of the background papers is the Head of Audit Partnership, White Cliffs Business Park, Dover, Kent CT16 3PJ. Telephone: (01304) 821199, Extension 2160.