

<b>Subject:</b>	<b>INTERNAL AUDIT CHARTER AND DRAFT INTERNAL AUDIT PLAN 2023-24</b>
<b>Meeting and Date:</b>	<b>Governance Committee – 16<sup>th</sup> March 2023</b>
<b>Report of:</b>	<b>Christine Parker – Head of Audit Partnership</b>
<b>Decision Type:</b>	<b>Non-key</b>
<b>Classification:</b>	<b>Unrestricted</b>
<b>Purpose of the report:</b>	This report sets out the proposed Internal Audit Plan for 2023/24 detailing a breakdown of audits and an analysis of available days.
<b>Recommendations:</b>	That Members approve to adopt the Internal Audit Charter for delivery of the internal audit service for the next three years.  That Members approve the Council's Internal Audit Plan for 2023/24

### **Summary.**

This report includes the Audit Charter for the East Kent Audit Partnership which sets out the overarching vision, aims and strategy for the Internal Audit Service together with 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, please see attached as Annex A.
- 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 attached as Annex B to this report. It is essentially the 'Why' and 'How' the East Kent Audit Partnership will provide the Internal Audit Service. It is a document that does not materially change from year to year and consequently it was suggested last year that this be approved for the next three years (to 31<sup>st</sup> March 2026) with the caveat that should any significant changes be required a revised Charter will be presented for consideration. Having undertaken a detailed self-assessment against the revised Public Sector Internal Audit Standards (PSIAS) minor aspects of the Charter were refreshed. It is proposed again, that subject to there being any future changes to the standard having a knock on effect to the Charter, this document will next be brought back to this Committee in March 2026.

### **3.0 Risk Based Internal Audit Plan.**

- 3.1 The Audit Plan for the year 2023 to 2024 is attached as Annex C 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 2023/24 plan as follows;

**1 - Cyber Security & Data Security** – Cybersecurity and data security retained its hold as the number one threat in the Risk in Focus 2023 survey – with 82% of respondents saying it was a top five risk (the same as in 2022). It is also the area on which internal auditors say they spend most time and effort. In three years' time, internal auditors expect the risk to still rank highest as a threat to their organisations but with slightly fewer ranking it a top five risk (77%). In fact, the threat landscape has become more dangerous – not least because of the war in Ukraine. Survey respondents said cybercrime and data security was their second biggest risk

from the conflict. In addition to this ransomware acts increased by 80% in 2022. There is an ICT review in the audit plan for 2023-24.

**2 - Human Capital, Diversity & Talent Management** – In the wake of an ongoing pandemic, organisational culture and talent management have become key areas of competitive advantage for organisations. Human capital, diversity and talent management ranked 2nd in Risk in Focus 2023's risk ranking, up from fourth place in 2022. With 50% citing it as a top five risk this year compared to 40% last year. Eighteen percent of respondents said it was their number one priority. It is a risk that is firmly cementing itself among the hardest challenges businesses face and internal auditors say that it will rank as the second largest risk three years from now – with 21% saying it will be their number one priority. There are HR reviews planned across the strategic audit plan.

**3 - Macroeconomic and geopolitical uncertainty** - The war in Ukraine took many organisations by surprise, including those with deep commercial interests in the region. As the Risk in Focus 2023 survey took place during the first quarter of 2022 when the conflict was just beginning, the crisis helped to push macroeconomic and geopolitical uncertainty into 3rd place in the survey, up from seventh just a year ago. With 46% citing it as a top five risk this year, compared to 32% last year. No time has been allocated in 2023-24 regarding this risk.

#### **4 - Changes in laws and regulations**

This risk has reduced slightly down from number 2 in 2022. Local councils will always be subject to changes in laws and regulations from government and are expected to react immediately to these changes. There is no time allocated specifically in the 2023-24 plan but any changes may be picked up within the individual audit reviews.

#### **5 - Digital disruption**

Digital disruption, new technology and AI - The pandemic pushed organisations' digitalisation efforts into third place in the risk rankings in the Risk in Focus 2022 survey as they moved staff to homeworking and shifted sales online. Not surprisingly, perhaps, this year internal auditors ranked it as the 5th biggest risk their organisations faced. With 38% citing it a top five risk this year compared to 45% last year. The Council is expected to keep pace with advances in digital services and this is a constant pressure upon them. No time has specifically been allocated in 2023-24 but this will be partially covered by ICT audits including that of cyber-security.

**6 - Climate change and environmental sustainability** - While internal auditors have had climate change on the agenda for some time, chief audit executives taking part in this year's Risk in Focus 2023 roundtable on the topic agreed that it was moving higher up their agendas. "Last year we were starting to wake up to the issue with training and seminars; this year we are getting into the detail and starting to implement environmental issues in every audit," said one participant. A Climate Change review has been undertaken recently and time has been allocated in the 2023-24 plan for a follow up to assess the Council's progress against this agenda.

#### **7 - Business continuity, crisis management and disasters response**

Following the pandemic and the large-scale changes that have been introduced since that time, such as working from home, etc. The Council's business continuity plans and responses have been thoroughly tested and lessons have been learnt. Although there has been widespread vaccinations undertaken nationally there is still the risk from variants of Covid and the Council must always be prepared for this.

#### **8 – Supply chain, outsourcing and nth party risk**

Stress on supply chains will be a constant feature over the next few years, especially since the European Commission's Proposal for a Directive on Corporate Sustainability Due Diligence

seeks to further tighten environmental and human rights protection in law. In this year's survey, supply chain, outsourcing and "nth" party risk ranked eighth in terms of its potential impact (up from ninth in 2022) and respondents said it ranked sixth in terms of the areas where internal audit functions spend most time and effort.

The reversal of outsourcing EKS ICT will commence from 1<sup>st</sup> April 2023. There will still be a small support service for CIVICA in the coming year to provide their ICT service requirements. No time has specifically been allocated in 2023-24 to this.

**9 - Financial, liquidity and insolvency risks** - 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. No time has specifically been allocated in 2023-24 to this.

#### **10 - Organisational governance and corporate reporting –**

Organisational governance has moved up slightly to now feature in the top ten risks for 2023. This is an important aspect of any company and especially for a local council which represents the local community and residents. It must be seen as complying with the many and various governance requirements placed upon a council to keep the trust of the local people. There are a number of governance reviews scheduled which will inform the annual opinion in July 2024.

- 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 2023-24 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 2023-24 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, liaisonTotal number of audits 24.

For 2023-24 the days available for carrying out audit is 318 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 Annex C.

#### **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 318 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 2023/24 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 2023-24 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 2023-24 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 £400 would cost £22,800 per annum.

#### **6.0 Background Papers.**

- Internal Audit Annual Plan 2022/23 - Previously presented to and approved in March 2022 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     Audit Mission  
Annex B     EKAP Internal Audit Charter  
Annex C     Dover District Council & EKS/Civica draft 2023/24 Internal Audit Plans

CHRISTINE PARKER  
Head of Audit Partnership

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.

## **East Kent Audit Partnership Mission**

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 port 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.