

The Internal Audit Strategy Statement & Annual Plan 2021/22

Natalie Porthouse
Chief Internal Auditor
Internal Audit & Risk Service
Resources and Digital

Introduction

1. The Internal Audit & Risk Service for Gateshead Council plays an essential role in supporting the Council to achieve its objectives and outcomes. The Annual Audit Plan for 2021/22 has been formulated from a review of the major risks that the Council faces. The plan therefore focuses on areas where we can add the most value and provide assurance that the Council's risks are being properly managed. The Service's objective is to promote and champion sound governance and effective and efficient internal controls throughout the Council and to provide objective assurance by ensuring key business controls are operating as planned and value for money is being achieved to support delivery of the pledges within 'Making Gateshead a place where everyone thrives'.
2. The Council's internal audit function is provided by the Internal Audit & Risk Service which is based within the Commercialisation and Improvement Service, within Resources and Digital.

Purpose

3. This document sets out Internal Audit's Strategy and Annual Audit Plan for Gateshead Council for the financial year 2021/22.
4. The purpose of the Internal Audit Strategy and Annual Audit Plan is to:
 - Meet the requirements of the Public Sector Internal Audit Standards (PSIAS) that require the Chief Internal Auditor to produce a risk based annual plan taking into account the need to give an independent annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control
 - Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2015
 - Ensure effective audit coverage and provide a mechanism to deliver independent and objective assurance in particular to the Audit and Standards Committee and Senior Managers
 - Identify the key risks facing the Council that could prevent it from achieving its objectives and determine the corresponding level of audit resources required to assess mitigating controls
 - Add value and support senior management in providing effective internal controls and identifying opportunities for improving value for money
 - Support the Strategic Directors of Resources and Digital and Corporate Services & Governance in fulfilling their obligations as the Council's Section 151 and Monitoring Officers, respectively.

Key Outputs Statement

5. The Internal Audit & Risk Service will deliver key responsibilities as follows:
 - To provide ongoing assurance to management on the Council's control environment comprising systems of governance, risk management and internal control
 - To support the Council's values and expected standards of behaviour
 - To be responsive to transformational change and service demands
 - To work together with the Council's external auditors to ensure reliance can always be placed on audit work where appropriate

- To continue to develop joint working relationships with other related regional and national groups and bodies
- To embed the integration of internal audit work with governance and service improvement and produce a clearly co-ordinated risk-based approach to the audit of business systems across the Council
- To ensure agreed management actions to audit recommendations made are fully implemented
- To deliver the statutory requirements of the Accounts and Audit Regulations 2015;
- To continue to develop and lead on the Council's corporate governance arrangements including the review and production of the Annual Governance Statement
- To provide an effective corporate counter fraud and corruption service and response in accordance with the Council's Counter Fraud and Corruption Arrangements and the Local Government Fraud Strategy - "Fighting Fraud and Corruption Locally".

Key Characteristics of the Annual Plan

6. Having regard to the current risk profile of the Council, the following main areas have been included in the Annual Plan for 2021/22:

- The ongoing impact of COVID 19 and the reallocation of resources to critical areas has had a significant impact on the Council and will continue to do so for the immediate future. The 2021/22 plan has therefore been revised to ensure it has adequate flexibility to address emerging risks as well as provide assurance in high risk, key financial, IT and governance functions. An allowance has also been included for audit requirements in relation to COVID grant funding from central government.
- The scale and pace of change of the financial challenge continues to have a significant impact on the Council. Changes have taken place in the Council's structure with ongoing activity to identify and deliver savings across all areas of Council services. The implementation of changes and public service reform, with a reduced workforce and reduced funding whilst delivering business as usual and achieving priorities, remains a key challenge and risk for the Council during 2021/22 and beyond.
- Internal Audit cannot manage risks directly; however, it can play an important role by developing a flexible audit approach and a dynamic plan to address emerging risks as well as those risks yet to be identified.
- Periods of change inevitably increase the potential for risks, both positive (opportunities) and negative (hazards). The reduction in the workforce for example provides a potential for breakdown in controls as well as an opportunity to consider alternative more efficient ways of organising people, systems and processes without impacting negatively on the control environment. To reflect this, the proposed plan includes time for advice and consultancy to support officers and challenge them in the establishment and development of their systems of governance, risk management and internal control. An important distinction is that Internal Audit's work will be challenging and advisory, rather than the design of controls which are a management responsibility.

- The plan includes time to reflect the work the Corporate Counter Fraud Team will be doing in relation to further developing and embedding the Council's counter fraud arrangements and also work to complete proactive counter fraud reviews aimed at detecting and preventing fraud in high risk areas.
- The challenge is to ensure that there is a balance between responding to these risks and ensuring that there is sufficient coverage of key systems. The Audit Plan must balance the need to:
 - a. Provide assurance on the effectiveness of internal controls operating within the Council.
 - b. Adequately review the assurance provided by key financial systems for management and the external auditor to place reliance on.
 - c. Allow for the Internal Audit Service to offer advice and guidance on control and efficiency issues.
 - d. Investigate suspected or detected frauds or irregularities.
 - e. Provide time to allow the Internal Audit Service to carry out unplanned or consultancy work requested by Service Directors.
- The continued pace of change across the Council requires assurance that is prioritised and timely and the plan must provide for this assurance to enable remedial action or controls to be implemented in a timely manner. Based on experience and feedback from Service Directors, there is a need for shorter, more focused and practical audits in areas of emerging risk. Close liaison with Business Partners who regularly attend Group Management Team meetings will facilitate a continuous review process to ensure the plan remains relevant.

2021/22 Annual Planning Process

7. The approach to audit planning in the Council for 2021/22 has been based on the following:
 - The Council's priorities
 - The impact of COVID 19 on the control environment, finances and delivery of Council priorities
 - The risks documented in the Council's strategic and operational risk registers
 - Consultation with Service Directors and the external auditors
 - Changes in legislation
 - The scope of planned external audit work
 - The implications of external inspection reports
 - Findings and outcomes from audit and investigation work in 2020/21 and earlier years
 - Consultation with colleagues across the region
 - Time elapsed since the previous audit
8. Once this information has been analysed, the perceived level of risk for each audit area is assessed based on thirteen areas taking into account such factors as materiality, complexity, potential for fraud and sensitivity. Based on a score derived from these assessments, audits are then categorised as high, medium or low priority which dictates when they will be audited within a 3-year cycle. High priority areas are audited on an annual basis. On completion of each audit, the risk profile is revisited to ensure it remains up to date.

9. The audit plan for 2021/22 is based on resources of 14 full time equivalent (FTE) employees (12.5 FTE's for 2020/21). Auditor's time has been allocated on the basis of an estimate of 71% productive hours after allowing for non-productive time including annual leave, sickness absence and training.
10. On this basis, the plan for 2021/22 has been broken down into 19,582 productive hours (16,969 originally planned productive hours for 2020/21) as shown below in paragraph 14. The former TGHC audit plan has now been incorporated within the Gateshead audit plan.

Plan Structure

11. Based on the above, the Chief Internal Auditor considers that assurance is best obtained through a combination of different "types" of audits. This is not an uncommon approach and reflects a changing emphasis for the approach to the plan tailored to the specific needs of the Council during a period of significant change.
12. There are five different types of audit activity in the plan:
 - **Assurance review** – to provide assurance that systems and controls are operating as intended and defined by risk profiles of each audit area. The risk-based approach also takes into consideration the views of Strategic and Service Directors.
 - **Advice and Consultancy** – early involvement of Internal Audit in new initiatives, ways of working or systems, particularly through periods of significant change, can help to maintain a robust control environment.
 - **Key systems** – assurance on core financial systems that are considered high risk requiring regular assurance. This work is important in providing annual assurance to the Council.
 - **Grant Certification** – assurance on grant returns and compliance with grant determinations.
 - **Counter Fraud**– proactive and reactive audit work on counter fraud and irregularity issues.
13. A balanced approach of using different types of audit and other work is considered the most effective way to deliver the Internal Audit Strategy.

Plan Content

14. Following the planning process outlined above and the principles of the PSIAS, a draft plan has been developed. As outlined, the plan needs to remain flexible and will be subject to continuous review in consultation with Strategic and Service Directors and the Audit and Standards Committee. A summary of the draft plan is shown below with further detail in Appendix C.

Groups and Services	Audit Hours
Children, Adults & Families	2,140

Public Health & Wellbeing	340
Economy, Innovation and Growth	835
Housing, Environment & Healthy Communities	1,461
Resources and Digital	3,032
Corporate Services and Governance	575
Office of the Chief Executive	170
Schools	922
Total Group and Service Hours	9,475
Corporate	
Counter Fraud	5,207
Grant Certification	440
Emergency Contingency and Recovery	700
Audit Planning and Management	1,355
Total Corporate Hours	7,702
External Bodies	
Trading Companies	100
Northumbria Police	2,305
Total External Bodies Hours	2,405
Total Productive	19,582
Non-productive	7,405
Total Hours	26,987

Audit Type	Audit Hours
Advice and Consultancy	810
Assurance Review	8,665
Grant Certification	1,140
Audit Planning and Management	1,355
Counter Fraud	5,207
Non-productive	7,405
Total Council Plan	24,582
External Bodies	
Trading Companies	100
Northumbria Police	2,305
Total Hours	26,987

15. Audit Planning and Management covers other audit activities including involvement in corporate initiatives, preparation of audit committee reports, audit planning, preparation of the Annual Governance Statement, liaison with the external auditors and development and support for new financial and internal audit management systems.

How the service will be provided

16. Internal audit provision is delivered by the in-house team supplemented by a joint working arrangement with Newcastle City Council for IT auditing. This arrangement will be kept under review on an annual basis.

17. In order to deliver the Annual Audit Plan at the required quality and professionalism, the team undertaking internal audit activity have the required mix of skills and experience. All internal audit staff are either fully qualified CCAB Accountants, qualified Association of Accounting Technicians or equivalent, Accredited Counter Fraud Specialists or studying for professional qualifications.
18. Professional judgement has been applied in assessing the level of resources required to deliver the Annual Audit Plan. The level of resource applied is a product of:
- The complexity of the areas to be reviewed;
 - Factors such as number of locations, number and frequency of transactions; and
 - Assurance that can be brought forward from previous audits and other internal and external reviews carried out.
19. Staff development needs are continually assessed to ensure that the optimal level and mix of skills required to deliver a highly professional and added value internal audit function is maintained.

Performance Management

20. The standards for 'proper practice' in relation to internal audit are laid down in the PSIAS and compliance with these professional standards will be ensured through a combination of internal and external reviews of compliance and quality. The outcome of the most recent external assessment against PSIAS was reported to the Audit and Standards Committee on 27 April 2020. A number minor of actions were identified and progress in addressing these will be continuously reviewed. Further examples include:
- Internal self-assessments by the Chief Internal Auditor.
 - Customer satisfaction questionnaires.
 - Annual CIPFA benchmarking information.
21. To achieve the planned coverage for 2021/22, deliver a high standard of customer care and demonstrate effectiveness of the service, the internal audit function has well established internal performance targets based on best professional practice. The following indicators will be reported to the Committee on a quarterly basis:

Performance Indicator	Target
Productive (Chargeable) time as a % of overall time	71%
Actual hours against planned hours achieved in year	97.25%
Number of audit recommendations implemented: High Medium and Best Practice	100% 90%
Audits completed within agreed time (budgeted hours)	90%
Customer satisfaction: Average score (maximum 4)	3.4 (85%)
Average cost per chargeable day	Lower than average

Children, Adults & Families			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	100
	Total Advice and Consultancy		100
Assurance Review	Adult Care Provision	High	100
	Care Call	High	80
	Day Centres for Adults with Disabilities	High	70
	Safeguarding - Adult Services	High	75
	CCG Recharges	High	60
	Promoting Independence Centres	High	70
	Children's Care Provision	High	100
	Safeguarding Children	High	75
	Children's Care Homes	High	100
	Special Educational Needs - Early Help	High	70
	Learning Skills	High	100
	Commissioning of Children's Services	High	90
	Commissioning Adult Services	High	90
	Domiciliary Care Services	New	80
	Adults Mosaic Implementation	New	40
	Children's Mosaic Implementation	New	40
	Great North Care Record	New	50
	School Sports Partnership	New	50
	Fostering and Out of Authority Provision	Medium	80
	Early Help Hub	Medium	80
	Early Years Childcare Service	Medium	100
	Targeted Family Support	Medium	80
	Specialist Support Services - Family Support	Medium	40
	Special Educational Needs - Schools	Medium	70
	Inspection Team	Medium	70
	Children, Adults & Families Follow Up Contingency	Annual	150
Audits brought forward from 2020/21		30	
	Total Assurance Review		2,040
Total Audit Hours			2,140

Schools			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	70
	Total Advice and Consultancy		70
Assurance Review	School Audits	High	720
	Audit Follow Up Contingency	N/A	130
	Audits brought forward from 2020/21	N/A	2
	Total Assurance Review		852
Total Audit Hours			922

Public Health & Wellbeing			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	30
	Total Advice and Consultancy		30
Assurance Review	Public Health Contract Monitoring	High	100
	Primary Care	High	100
	Leisure Centres	High	90
	Audit Follow Up Contingency	N/A	20
	Audits brought forward from 2020/21	N/A	0
	Total Assurance Review		310
Total Audit Hours			340

Corporate Services and Governance			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	50
	Total Advice and Consultancy		50
Assurance Review	Mayor's Charity Fund	Annual	15
	Corporate Procurement	High	100
	Information Governance and Data Protection	High	80
	HR Strategy, Policies and Procedures	New	70
	Print Point	Medium	60
	Health and Safety	Medium	60
	Recruitment and Appointment Process	Medium	50
	Sickness Monitoring	Medium	50
	Audit Follow Up Contingency	N/A	30
	Audits brought forward from 2020/21	N/A	10
	Total Assurance Review		525
Total Audit Hours			575

Economy, Innovation and Growth			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	50
	Total Advice and Consultancy		50
Assurance Review	Commercial Contracts	Annual	80
	PSP/TNRP	High	60
	Electrical Inspection	High	70
	Fire Safety	High	70
	Water Safety and Legionella	High	70
	Passenger Lifts	High	70
	Asbestos Management	High	80
	Gas Servicing	High	80
	Housing Growth and Development	New	60
	Transport Strategy	Medium	50
	Economic Growth	Medium	60
	Audit Follow Up Contingency	N/A	30
	Audits brought forward from 2020/21	N/A	5
	Total Assurance Review		785
Total Audit Hours			835

Office of The Chief Executive			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	30
	Total Advice and Consultancy		30
Assurance Review	Partnership Arrangements	High	70
	Grants to Voluntary Organisations	New	50
	Audit Follow Up Contingency	N/A	20
	Audits brought forward from 2020/21	N/A	0
	Total Assurance Review		140
Total Audit Hours			170

Housing, Environment & Healthy Communities			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	130
	Total Advice and Consultancy		130
Assurance Review	Waste Management Partnership	High	100
	Housing Risk Management and Business Continuity Arrangements	High	60
	Health and Safety	High	70
	Rent Arrears and Rent Collection	High	100
	Repairs and Maintenance	High	80
	Procurement	High	80
	Transport	Medium	80
	Facilities Management	Medium	50
	Housing IT Audit	Medium	90
	Governance	Medium	50
	Keelman Homes	Medium	100
	Information Security Management and Governance	Medium	60
	Adaptations and Housing Renovation Grants	Medium	70
	Stores	Medium	80
	Audit Follow Up Contingency	N/A	80
	Audits brought forward from 2020/21	N/A	181
	Total Assurance Review		1,331
Total Audit Hours			1,461

Resources and Digital			
Audit Type	Audit Area	Risk	Hours
Advice and Consultancy	General Advice and Consultancy	N/A	350
	Total Advice and Consultancy		350
Assurance Review	Debtors Write off	Annual	70
	Counter Fraud Arrangements	High	40
	Performance Indicators and Data Quality	High	60
	Risk Management and Business Continuity	High	60
	Business Rates	High	75
	Council Tax	High	75
	Local Council Tax Support Scheme and Housing Benefits	High	100
	Corporate Creditors	High	120
	Leasing	High	80
	Service Debtors	High	70

Treasury Management	High	40
Service Creditors	High	70
Service Payroll and Human Resources Administration	High	70
Main Accounting System	High	70
Capital Accounting System and Programme	High	100
Housing Revenue Account (HRA)	High	80
Annual Governance Statement Assurances	High	100
VAT Arrangements	High	40
Corporate Debtors and Income	High	100
Corporate Payroll and Human Resources System	High	110
IT Security	High	90
Employee Administration	High	80
Budgetary Control	High	40
IT Resilience	Medium	90
IT Systems Monitoring	Medium	90
IT Risk Management	Medium	90
Equalities	Medium	70
Recovery of Benefit Overpayments	Medium	60
Children's Direct Payments	Medium	75
Disclosure and Barring Service Checks	Medium	70
BACS	Medium	40
Fees and Charges	Medium	40
Insurance	Medium	70
Audit Follow Up Contingency	N/A	100
Audits brought forward from 2020/21	N/A	147
Total Assurance Review		2,682
Total Audit Hours		3,032
Total Group and Service Hours		9,475