

Regulation, Audit & Accounts Committee

23 March 2020

Approach to Internal Audit Planning 2020/21

Report by Director of Finance and Support Services, and the Head of Southern Internal Audit Partnership

Executive Summary

The purpose of this paper is to provide the Regulation, Audit & Accounts Committee with an overview of the approach to internal audit planning for the period 2020/21 to enable the most effective use of internal audit resource.

Recommendation

The Committee approve the proposed approach to internal audit planning for 2020/21(Q2 – Q4) and the draft internal audit plan activity (Q1).

1. Introduction

- 1.1 This report provides an overview of internal audit's approach to planning and effective alignment of internal audit resource during 2020/21.

2. Background

- 2.1 In accordance with the Public Sector Internal Audit Standards there is a requirement that Internal audit establish a risk-based audit plan to determine the priorities of the internal audit service, consistent with the organisation's goals.
- 2.2 The aim of the internal audit plan is to provide independent and objective assurance to management and those charged with governance, in relation to the business activities; systems or processes under review that:
- the framework of internal control, risk management and governance is appropriate and operating effectively; and
 - risk to the achievement of the Council's objectives is identified, assessed and managed to a defined acceptable level
- 2.3 To develop the risk-based plan, internal audit is required to consult with senior management to obtain an understanding of the organisation's strategies, key business objectives and associated risks.
- 2.4 West Sussex County Council joined the Southern Internal Audit Partnership (SIAP) in February 2018. Since that time SIAP have struggled to optimise engagement with senior management to ensure the most effective use is made organisationally of internal audit resource
- 2.5 Barriers to effective engagement have included:
- senior management churn;
 - changing priorities, strategies and focus;
 - prioritisation on DMT agendas.

- 2.6 Whilst it remains the SIAPs aim to build effective relationships over the forthcoming year (20/21) it is essential for the organisation that during this transition, we optimise internal audit focus on key risk areas.
- 2.7 To achieve this and to further strengthen the overall governance and assurance framework across the Council it is proposed that internal audit planning contributing towards the 2020/21 internal audit plan is premised around the Council's key strategic risks through a process of assurance mapping.
- 2.8 This approach seeks to identify and record the key sources of assurance that inform management and those charged with governance on the effectiveness of the controls and processes that are relied on to manage identified organisational (strategic and departmental) risks.

Proposed Approach to 2020/21 Planning

- 2.9 Assurance mapping will provide West Sussex County Council with an improved ability to understand and confirm '**do you really know what you think you know**'
- 2.10 The outcome of the assurance mapping exercise will provide a comprehensive picture of where the organisation receives assurance, highlighting instances of over assurance (duplication) and potential areas of under assurance where additional internal audit focus maybe best utilised.
- 2.11 Outcomes will inform a more strategic allocation of internal audit resource across the organisation
- 2.12 Some of the key benefits / deliverables of the assurance mapping exercise will include:
- Providing DMTs / ELT and those charged with governance (Regulation, Audit & Accounts Committee) that adequate levels of assurance are received across key departmental and organisational risks;
 - Good governance, contributing to the Annual Governance Statement;
 - Identification of areas of over assurance (duplication, cost savings);
 - Identification of under assurance (focus of internal audit work);
 - Underpin and support existing risk management arrangements; and
 - Help encourage management to take a lead and ownership over the assurance provided on their areas of responsibility / accountability.

Context and Potential Barriers

- 2.13 Through the current risk management process, strategic and departmental risks have been identified and recorded along with the controls/ actions in place to mitigate those risks. The proposed assurance mapping process will build on these foundations to determine what assurance the organisation has that those controls are operating effectively.

2.14 Assurance can come from many sources. The Three Lines of Defence is a model that helps identify and understand the various sources of assurance by defining them in three broad categories. Such categorisation helps to understand how each contributes to the overall level of assurance provided and how best they can be integrated and mutually supportive.

2.15 The three lines of defence are defined below:

1st line (Operational Management) - within the 'front-line' or business operational areas, there will be many arrangements established that can be used to derive assurance on how well controls are being managed.

This assurance comes direct from those responsible for delivering specific objectives or operation; it provides assurance that performance is monitored, risks identified and addressed and objectives are being achieved. This type of assurance may lack independence and objectivity, but its value is that it comes from those who know the business, culture and day-to-day challenges.

2nd line (Management Oversight) - associated with oversight of management activity and separate from those responsible for delivery, but not independent of the organisation's management chain.

This assurance provides valuable management insight into how well work is being carried out in line with set expectations and policy or regulatory considerations. It will be distinct from and more objective than first line assurance.

3rd line (Independent Oversight) - relates to independent and more objective assurance and focuses on the role of internal audit, which carries out a programme of work specifically designed to provide an independent and objective opinion on the framework of governance, risk management and control. Other sources of assurance may include External Audit, Ofsted, HMIC etc.

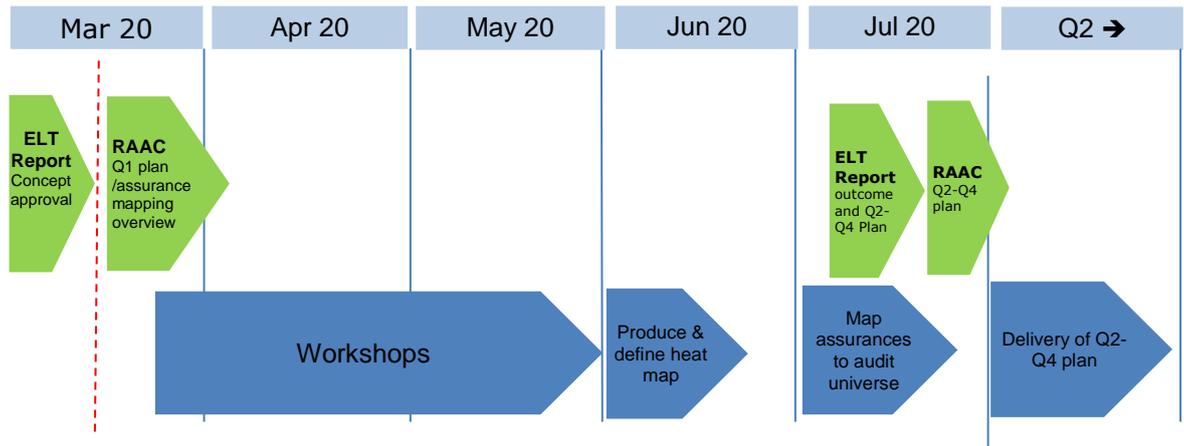
Next Steps

2.16 The SIAP will work with DMTs and Risk owners in facilitating a series of workshops to fully understand and document the key sources of assurance available against the controls in place to mitigate departmental risks.

2.17 The Southern Internal Audit Partnership will then analyse and record this information to provide a 'heat map' of assurance against strategic / departmental risks, which will aid in assessing areas of duplication and omission. The 'heat map' will provide a useful tool for management and those charged with governance that comprehensive process are in place to support the effectiveness of the organisation's framework of risk management, internal control and governance.

2.18 The outcomes of the assurance mapping process will be used to inform the annual internal audit plan to more strategically align resources.

Timelines



- 2.19 Given the indicative timescales a schedule of internal audit reviews has been compiled for Q1 based on the Head of Southern Internal Audit Partnerships own assessment and following the existing model of liaison with Executive Directors and enabling sufficient time for the assurance mapping workshops to take place and outcomes considered. We will then produce a Q2 – Q4 plan using the assurance map for consideration / approval by ELT and the Regulation, Audit and Accounts Committee in July.
- 2.20 Appendix A summarises the draft internal audit plan for quarter 1 (April – June 2020).

3. Resource Implications and Value for Money

- 3.1 None arising directly from this report

4. Equality Duty.

- 4.1 An Equality Impact Report is not required for this decision as report dealing with internal or procedural matters only.

5. Risk Management Implications

- 5.1 There are risks associated with non compliance with the statutory requirements of the Accounts & Audit [England] Regulations 2015 and conformance to the Public Sector Internal Audit Standards 2017. Non-compliance would result in the internal audit activity not being able to report that it functions in accordance with industry standards and may impact on the level of assurance attained from internal conclusions by Members, Senior Management and External Audit.

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Appendices

Appendix A – Draft Internal Audit Plan 2020-21 (Quarter 1)

Background Papers

None