



Internal Audit

DRAFT

South Lakeland District Council

Annual Internal Audit Plan

2021/22

March 2021

Overview

Introduction

The Audit Plan for 2021/22 has been informed by a risk assessment carried out across our local government clients and by an updated audit risk assessment to ensure that planned coverage for the year is focussed on the key audit risks, and that the coverage will enable a robust annual Head of Internal Audit Opinion to be provided.

Key Emerging Themes

This year will continue to be another challenging year for local authorities in terms of funding, balancing budgets, service delivery and dealing with the ongoing impact of the COVID-19 pandemic. We have identified a number of key areas which require consideration when planning internal audit coverage.

“Multi-channel” resident engagement: Partly as a result of COVID-19 but also as process changes through improved technology, councils will need to embrace cutting edge technology. Adopting a multi-channel approach to resident engagement will enable council services to be more readily available, more accessible and more transparent.

Commercialisation: Councils are being driven towards being more self-sufficient and cost effective, with pressure to close funding gaps and rebalance budgets. Councils will already be operating in different financial and more commercial environments. The pandemic is likely to have brought significant unforeseen risks to these investments and their underlying assumptions.

Cyber Security: As more services move on-line, risks and vulnerabilities are likely to increase. Cyber security is as much about awareness and behaviours as it is about network security. Resilience needs to be regularly and stringently stress tested across the organisation to ensure it is operating effectively.

Council mergers: Reorganisation is very much back on the table with central government inviting submissions for locally-led proposals for unitary government. The merger process itself and the cost of any redundancies is likely to add to short-term financial pressures. Mergers don't just involve the transfer of assets but also liabilities and risks; there needs to be certainty that the outcome will lead to better public services and the identified efficiencies.

Further analysis of the risks facing the sector can be found at Appendix A.

Providing Assurance during the COVID-19 pandemic

We have successfully transitioned to new and remote ways of working without any diminution of the service and we recognise that many if not all of our clients have had to implement changes in the way that they work. This may have resulted in gaps in control or exposures that previously didn't exist.

We have carried out extensive research to establish the Root Cause Indicators (RCI) which underpin the reasons for any weaknesses identified by our Internal Audit work in an organisation's governance, risk and control framework.

The RCIs include identifying the extent to which COVID-related factors are the cause of the identified exposure.

Further details in relation to RCIs can be found at Appendix B.

Adequacy of the planned audit coverage

The reviews identified in the audit plan for 2021/22 support the Head of Internal Audit's annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control as required by TIAA's charter. The reviews have been identified from your assurance framework, risk registers and key emerging themes.

Internal Audit Plan

Audit Planning Methodology

We adopt a proprietary risk-based approach to determining your audit needs each year which includes reviewing your risk register and risk management framework, the regulatory framework, external audit recommendations and previous internal audit work for the organisation, together with key corporate documentation such as your business and corporate plan, standing orders, and financial regulations. For 2021/22, we have conducted an analysis of the key risks facing the sector and client base more broadly to inform our annual planning. The Audit Plan is based predominantly on our understanding of the inherent risks facing South Lakeland District Council and those within the sector and has been developed with senior management and Committee. Our approach is based on the International Standards for the Professional Practice of Internal Auditing which have been developed by the Institute of Internal Auditors (IIA) and incorporate the Public Sector Internal Audit Standards (PSIAS).

Risk Prioritisation

Each year an updated risk assessment is carried out to ensure the Audit Plan remains fully aligned with the key risks facing South Lakeland District Council. Appendix A contains the GUARD assessment of key risks in the sector and which has been used to identify those that are most relevant to the organisation and where internal audit assurance would be best focussed. Links to specific strategic risks are also contained in the Internal Audit Plan.

Internal Audit Plan

The Council has identified a rolling programme of audits that focus on its main financial and governance processes; these are set out at Appendix C. Taking this into account and having undertaken the risk prioritisation review, the Audit Plan has been produced. Appendix D sets out the reviews that will be carried out, the planned times and the high-level scopes for each of these reviews.

The Annual Plan will be subject to ongoing review and could change as the risks change for the organisation and will be formally reviewed with senior management and the Audit Committee mid-way through the financial year or should a significant issue arise.

The overall agreed time for the delivery of the Annual Plan includes: research; preparation and issue of terms of reference; site work; production and review of working papers; and reporting.

The Annual Plan has been prepared on the assumption that the expected controls will be in place.

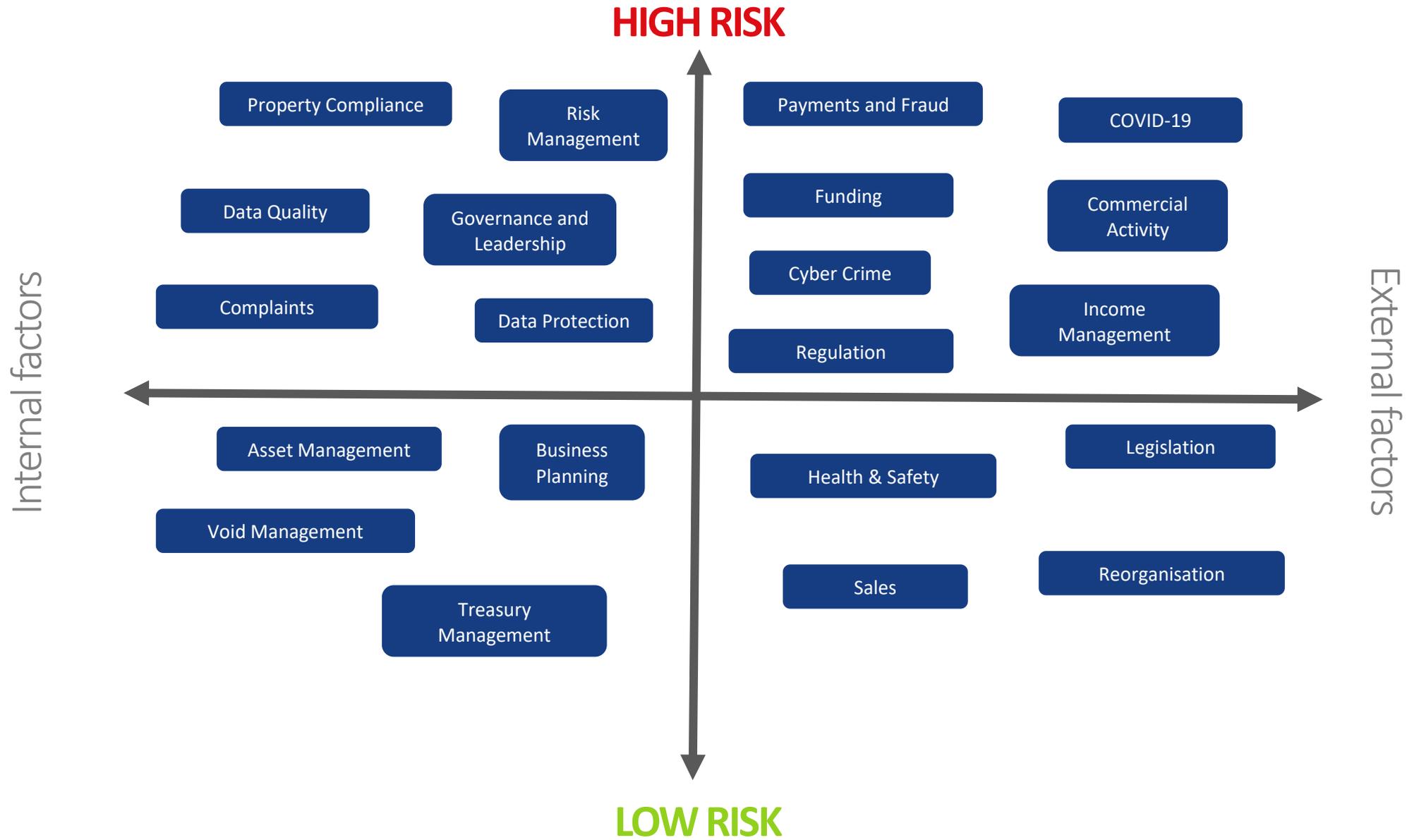
The total number of days required to deliver the Audit Plan is as agreed in the contract between TIAA and South Lakeland District Council. This number of days is fixed and it is TIAA's responsibility to deliver the Audit Plan for this number of days. Where South Lakeland District Council agrees additional work the required number of days and the aggregate day rate will be agreed in advance with the Finance Lead Specialist and Section 151 Officer and will be clearly set out in the terms of reference for the additional review(s).

Release of Report

The table below sets out the history of this plan.

Date plan issued:	22 nd March 2021
Date revised plan issued:	25 th March 2021

Appendix A: GUARD Risk Analysis



Appendix B: Providing Assurance

Corporate Assurance Risks

We consider two corporate assurance risks – Directed and Delivery. Underneath these corporate risks sit six Root Cause Indicators (RCI). We have carried out extensive research to establish the RCI which underpin the reasons for any weaknesses identified by our Internal Audit work in an organisation’s governance, risk and control framework. The benefits of adopting this new approach is that it enables management and Audit Committees to clearly understand and focus on the significant issues arising from our work. For each audit assignment, we will provide a RCI for each of our findings in that area.



Directed Risk: Failure to properly direct the service to ensure compliance with the requirements of the organisation.

Root Cause Indicator	Governance Framework	There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.
	Risk Mitigation	The documented process aligns with the mitigating arrangements set out in the corporate risk register.
	Compliance	Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.



Delivery Risk: Failure to deliver the service in an effective manner which meets the requirements of the organisation.

Root Cause Indicator	Performance Monitoring	There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.
	Financial Constraint	The process operates within the agreed financial budget for the year.
	Resilience	Good practice to respond to business interruption events and to enhance economic, effective and efficient delivery is adopted.

Appendix C: Three year rolling programme of main financial and governance systems

Review Area	2021/22	2022/23	2023/24
Budgetary Control	✓		
Treasury Management	✓		
Housing Benefits	✓		
Information Governance	✓		
Procurement	✓		
Debtors	✓		
Cash Receipting		✓	
NNDR		✓	
Risk Management		✓	
Income Management – Car Parking		✓	
Contract Management		✓	
Main Accounting System		✓	
Payroll			✓
Creditor Payments			✓
Council Tax			✓
Performance Management			✓
Asset Management			✓
Insurances			✓
Corporate Governance – Compliance with Local Code			✓

Appendix D: Annual Plan – 2021/22

Quarter	Review	Type	Days	Rationale and Scope
1	Flood Relief Scheme	Assurance	10	South Lakeland District Council is acting as the accountable body for European Regional Development Funding (ERDF) to deliver a flood relief scheme that is intended to increase the level of flood protection for Kendal and other locations within the River Kent catchment area.
1	Cyber Maturity	Assurance	10	Organisations are facing a constant and increasing risk of cyber incidents and cyber-crime. A key step to reducing the risk and protecting organisations in this area is by understanding the maturity of an organisation in terms of how cyber risks are managed. The objective of the review will be to assess the Cyber Security Maturity (CSM) of the organisation, including: Risk Management Regime; Network Security; User Education and Awareness; Malware Prevention; Removable Media Controls; Secure Configuration; Managing User Privileges; Incident Management; Home and mobile working; and Monitoring.
1	Contract Management	Assurance	15	In December 2019, planning permission was obtained to remodel the Council’s main office locations in Kendal. The review will consider the contract management arrangements for the refurbishment works at Kendal Town Hall and South Lakeland House. The review will cover contractor management, site health and safety, site meetings and progress, cash flow, certification and invoicing.
1	Licensing – Taxis	Compliance	5	The review will be in the form of a compliance audit with checks undertaken around criminal record checks, driving licences, MOT and insurance.
2	Procurement	Assurance	15	The review will consider the procurement practices adopted by the Council in obtaining goods and services, ensuring procurement exercises deliver value for money and are in line with current procurement rules. This review forms part of the rolling three-year programme of key financial and governance audits.
2	Customer Connect – ‘My Account’	Assurance	10	This review has been carried forward from 2020/21. The review will consider the implementation of the ‘My Account’ module following its roll-out during 2020/21 as part of the Customer Connect programme.
2	Information Governance	Assurance	15	The review will consider the arrangements in place for managing information, including in line with the UK GDPR and the Data Protection Act 2018. This review forms part of the rolling three-year programme of key financial and governance audits.
2	Debtors	Assurance	10	The review will consider the controls in place to recover monies owed to the Council through monitoring and recovery activity. This review forms part of the rolling three-year programme of key financial and governance audits.

Quarter	Review	Type	Days	Rationale and Scope
2	COVID-19 Grant Schemes	Assurance	30	SLDC has been responsible for distributing Government grants and support during the pandemic. The review will consider the management and administration of the various grant schemes that have been in operation in response to the pandemic, including the assessment of eligibility and the measures in place to mitigate fraud.
3	Budgetary Control	Assurance	10	The review will consider the arrangements in place for setting the budget and the medium term financial plan. The review will also consider the arrangements for monitoring financial performance through management accounts and reporting. This review forms part of the rolling three-year programme of key financial and governance audits.
3	Treasury Management	Assurance	10	The review will consider the treasury management arrangements including loans and investment activity. This review forms part of the rolling three-year programme of key financial and governance audits.
3	Administration of Grants	Assurance	15	The Council applies for a range of grants to support investment opportunities and other activity. The review will consider the processes in place for applying for grants, including business case, timeliness of claims, approval application and gatekeeping, and the recording of grants received. This relates to 'business-as-usual' grants rather than Covid-related.
4	Housing Benefits	Assurance	15	The review will consider the arrangements in place for processing housing benefit claims and payments. This review forms part of the rolling three-year programme of key financial and governance audits.
4	Follow-up	Follow up	10	Follow-up of implementation of agreed priorities one and two actions from audit reports, ensuring the Council is implementing recommendations, and providing reports to the Audit Committee.
1-4	Audit Management	Planning/Reporting	20	This includes overall contract management, attendance at Audit Committee, planning and reporting, including the Internal Audit Annual Report and opinion for 2021/22. It also includes attendance at other meetings as required, ad-hoc management advice and support relating to risk, internal control and governance.
Total days			200	(includes 10 carried over from 2020/21)

Appendix E: Internal Audit Charter

The Need for a Charter

The Audit Charter formally defines internal audit's purpose, authority and responsibility. It establishes internal audit's position within South Lakeland District Council and defines the scope of internal audit activities. The establishment of the Audit Charter is a requirement of the Public Sector Internal Audit Standards (PSIAS) and approval of the charter is the responsibility of the Audit Committee.

The Role of Internal Audit

The main objective of the internal audit activity carried out by TIAA is to provide, in an economical, efficient and timely manner, an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the framework of governance, risk management and control. TIAA is responsible for providing assurance to South Lakeland District Council's governing body (being the body with overall responsibility for the organisation) on the adequacy and effectiveness of the risk management, control and governance processes.

Standards and Approach

TIAA's work will be performed with due professional care, in accordance with the requirements of the PSIAS and the IIA standards which are articulated in the International Professional Practices Framework (IPPF).

Scope

All South Lakeland District Council activities fall within the remit of TIAA. TIAA may consider the adequacy of controls necessary to secure propriety, economy, efficiency and effectiveness in all areas. It will seek to confirm that South Lakeland District Council management has taken the necessary steps to achieve these objectives and manage the associated risks. It is not within the remit of TIAA to question the appropriateness of policy decisions; however, TIAA is required to examine the arrangements by which such decisions are made, monitored and reviewed.

TIAA may also conduct any special reviews requested by the board, Audit Committee or the nominated officer (being the post responsible for the day-to-day liaison with TIAA), provided such reviews do not compromise the audit service's objectivity or independence, or the achievement of the approved audit plan.

Access

TIAA has unrestricted access to all documents, records, assets, personnel and premises of South Lakeland District Council and is authorised to obtain such information and explanations as they consider necessary to form their opinion. The collection of data for this purpose will be carried out in a manner prescribed by TIAA's professional standards, Information Security and Information Governance policies.

Independence

TIAA has no executive role, nor does it have any responsibility for the development, implementation or operation of systems; however, it may provide independent and objective advice on risk management, control, governance processes and related matters, subject to resource constraints. For day-to-day administrative purposes only, TIAA reports to a nominated officer within South Lakeland District Council and the reporting arrangements must take account of the nature of audit work undertaken. TIAA has a right of direct access to the chair of the board, the chair of the Audit Committee and the responsible accounting officer (being the post charged with financial responsibility).

To preserve the objectivity and impartiality of TIAA's professional judgement, responsibility for implementing audit recommendations rests with South Lakeland District Council management.

Conflict of Interest

Consultancy activities are only undertaken with distinct regard for potential conflict of interest. In this role we will act in an advisory capacity and the nature and scope of the work will be agreed in advance and strictly adhered to.

We are not aware of any conflicts of interest and should any arise we will manage them in line with TIAA's audit charter and internal policies, the PSIAS and the IIA standards and South Lakeland District Council's requirements.

Irregularities, Including Fraud and Corruption

TIAA will without delay report to the appropriate regulator, serious weaknesses, significant fraud, major accounting and other breakdowns subject to the requirements of the Proceeds of Crime Act 2002.

TIAA will be informed when evidence of potential irregularity, including fraud, corruption or any impropriety, is discovered so that TIAA can consider the adequacy of the relevant controls, evaluate the implication of the fraud on the risk management, control and governance processes and consider making recommendations as appropriate. The role of TIAA is not to investigate the irregularity unless commissioned to do so.

Limitations and Responsibility

Substantive testing will only be carried out where a review assesses the internal controls to be providing 'limited' or 'no' assurance with the prior approval of South Lakeland District Council and additional time will be required to carry out such testing. South Lakeland District Council is responsible for taking appropriate action to establish whether any loss or impropriety has arisen as a result of the control weaknesses.

Internal controls can only provide reasonable and not absolute assurance against misstatement or loss. The limitations on assurance include the possibility of one or more of the following situations, control activities being circumvented by the collusion of two or more persons, human error, or the overriding of controls by management. Additionally, no assurance can be provided that the internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks that may arise in future.

The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.

Reliance will be placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.

The matters raised in the audit reports will be only those that come to the attention of the auditor during the course of the internal audit reviews and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. The audit reports are prepared solely for management's use and are not prepared for any other purpose.

Liaison with the External Auditor

We will liaise with South Lakeland District Council's External Auditor. Any matters in the areas included in the Annual Plan that are identified by the external auditor in their audit management letters will be included in the scope of the appropriate review.

Reporting

Assignment Reports: A separate report will be prepared for each review carried out. Each report will be prepared in accordance with the arrangements contained in the Terms of Reference agreed with TIAA and which accord with the requirements of TIAA’s audit charter and PSIAS/IIA standards.

Progress Reports: Progress reports will be prepared for each Audit Committee meeting. Each report will detail progress achieved to date against the agreed annual plan.

Follow Up Reports: We will provide an independent assessment as to the extent that priority 1 and 2 recommendations have been implemented. Priority 3 recommendations are low-level/housekeeping in nature and it is expected that management will monitor and report on implementation as considered appropriate.

Annual Report: An Annual Report will be prepared for each year in accordance with the requirements set out in TIAA’s audit charter and the Global IIA standards. The Annual Report will include a summary opinion of the effectiveness of South Lakeland District Council’s governance, risk management and operational control processes based on the work completed during the year.

Other Briefings: During the year Client Briefing Notes, Benchmarking and lessons learned digests will be provided. These are designed to keep the organisation abreast of in-year developments which may impact on the governance, risk and control assurance framework.

Assurance Assessment Gradings

We use four levels of assurance assessments as set out below.

Substantial Assurance	There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.
Reasonable Assurance	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved.
Limited Assurance	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved.
No Assurance	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

Performance Standards

The following Performance Targets will be used to measure the performance of internal audit in delivering the Annual Plan:

Area	Performance Measure	Target
Achievement of the plan	Completion of planned audits.	100%
	Audits completed in time allocation.	100%
Reports Issued	Draft report issued within 10 working days of exit meeting.	100%
	Final report issued within 10 working days of receipt of responses.	100%
Professional Standards	Compliance with TIAA’s audit charter and PSIAS/IIA Standards.	100%

Data Protection

TIAA has policies, procedures and processes in place to comply with all associated regulation and legislation on information security, which is underpinned by mandatory annual awareness training for all staff. To carry out our role effectively, we need to obtain information that is reliable, relevant and sufficient to support our findings and recommendations. The collection of data, particularly sensitive personal data, is minimised and is not shared with unauthorised persons unless there is a valid and legal requirement to do so. We have clear policies on the retention of data and its appropriate, controlled disposal. TIAA has a fully robust Information Security Management System that meets all the requirements of ISO27001:2013.

Quality Assurance

TIAA recognises the importance of Internal Audit being controlled at each stage to ensure that we deliver a consistent and efficient Internal Audit service that is fully compliant with professional standards and also the conditions of contract. We operate a comprehensive internal operational quality review process to ensure that all Internal Audit work is carried out in accordance with these standards. These quarterly reviews are part of our quality management system which has ISO 9001:2015 accreditation.

Audit Committee Responsibility

It is the responsibility of the South Lakeland District Council to determine that the number of audit days to be provided and the planned audit coverage are sufficient to meet the Committee's requirements and the areas selected for review are appropriate to provide assurance against the key risks within the organisation.

By approving this document, the Audit Committee is also approving the Internal Audit Charter.

Disclaimer

The matters raised in this planning report, along with those raised in our audit and annual reports, are only those that came to the attention of the auditor during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.