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## INTERNAL AUDIT ANNUAL REPORT 2017/18

### 1 PURPOSE OF REPORT

- 1.1 To provide the Chief Audit Executive's annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control during 2017/18.

### 2 BACKGROUND

- 2.1 The Accounts and Audit Regulations 2015 require the Council to maintain an adequate and effective internal audit service in accordance with proper practices. For this purpose, proper practices are deemed to be the UK Public Sector Internal Audit Standards.
- 2.2 The UK Public Sector Internal Audit Standards require that the Chief Audit Executive must give an annual internal audit opinion and provide a report that can be used by the Council to inform its Annual Governance Statement (AGS).
- 2.3 Whilst the work of Internal Audit is a key element informing the AGS, there are also a number of other sources within the Council from which the Section 151 Officer and Members should gain assurance, for example, service assurance statements and other reviews by external bodies including external audit.

### 3 INTERNAL AUDIT COVERAGE AND OUTPUT

- 3.1 The Audit Committee approved the annual audit plan in March 2017. The Audit Committee has received progress updates on the delivery of the audit plan and the results of individual audits throughout the year.
- 3.2 Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively. The Annual Audit Plan remained fluid throughout the year to maintain an effective focus and to take account of changing needs for audit resource.
- 3.3 Appendix 1 summarises the Internal Audit work completed in 2017/18 and the assurance opinions given. Since the January 2018 Audit Committee meeting a further 11 audit reviews have been completed. The opinion given and main points arising from these completed audit engagements is summarised at Appendices 2 and 3; the latter relating to audit work that provides a light touch or overview of the processes examined.
- 3.4 Recommendations arising from completed audit engagements are shown in Appendix 4. This also details the current status of whether the recommendation is implemented or when it is due to be implemented.

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#### 4 CHIEF AUDIT EXECUTIVE OPINION

- 4.1 The Chief Audit Executive's opinion is based upon, and restricted to, the work that has been performed during the year; including assessments of the:-
- design and operation of the underpinning assurance framework and supporting processes, including reliance on other assurance providers where appropriate;
  - range of individual opinions arising from the risk-based audit assignments contained within the internal audit risk-based plan that has been reported throughout the year; and
  - the relative materiality of the areas reviewed and management's progress in respect of addressing control weaknesses identified.
- 4.2 The opinion does not imply that Internal Audit has reviewed and commented on all risks and assurances relating to the Council. It should be stated that it is not expected that all Council activities will be subject to Internal Audit coverage in any one year.
- 4.3 A key area where Internal Audit has only undertaken limited non-technical work during 2017/18 is in relation to Information and Communication Technology. Much change has happened with the Council's ICT infrastructure during 2017/18 with partial migration to the Azure Cloud (Microsoft). Completion of this migration is scheduled in the summer of 2018. The work undertaken was by way of a questionnaire that sought assurances from EduServ in respect of network security, safeguards in place to prevent cyber attacks (security bug fixes and patches applied as part of software updates) and backup arrangements; no concerns were identified. Both EduServ and Microsoft hold accreditation under the ISO 27001 standard for information security. The Council does not hold certification for the Public Sector Network. This is primarily due to use of unsupported servers, which potentially could have vulnerabilities.
- 4.4 Four audit reviews received a "limited" assurance opinion: Environmental Health, waste collection contract, procurement and debtors. This is balanced against a further ten reviews that received an adequate or good rating. With the exception of debtors, no significant concerns were highlighted in respect of the Council's key financial systems that are fundamental to the robustness of the Council's overall control environment.
- 4.5 Procurement and debtors also received a "limited" assurance opinion in 2016/17. It is acknowledged that the majority of recommendations raised in 2016/17 have been addressed; 7 from 8 for procurement and 6 from 10 for debtors. The outstanding items remain ongoing pieces of work. Testing carried out in 2017/18 identified other areas of concern, across several services, which has resulted in an adverse opinion for the year for both audits.

- 4.6 The Chief Audit Executive is satisfied that sufficient work has been undertaken during 2017/18 to draw a reasonable conclusion on the adequacy and effectiveness of the Council's arrangements. Based on the work performed during 2017/18 and other sources of assurance the Chief Audit Executive is of the opinion that adequate assurance can be taken that the Council's risk management, internal control and governance processes in operation during the year to 31 March 2018 generally accord with proper practice and are fundamentally sound, although there are opportunities to improve the arrangements to enhance the Council's governance framework.

## **5 COUNTER FRAUD ACTIVITY**

- 5.1 Local authorities need to remain ever vigilant to the threat of fraud and, through strong internal controls, look to prevent such activity. That said, not all fraud can be prevented and therefore appropriate arrangements need to be in place for identification of such activity. The National Fraud Initiative and Pan Essex Data Hub provide the means for the Council to identify potential fraud through data matching, followed by subsequent investigation and recovery where relevant.
- 5.2 Internal Audit work considers the risk of fraud in planning all individual audits and has supported service departments as part of a wider more strategic approach to counter-fraud arrangements in risk identification and the development of controls to mitigate identified risks. For example, potential fraud may be prevented and reputational damage reduced by improving the checking of staff before they are employed.
- 5.3 The best fraud fighters are the staff and clients of local authorities. To ensure that they are supported to do the right thing, a comprehensive anti-fraud culture needs to be maintained, including clear whistle blowing arrangements. During 2016/17, the Council identified a counter fraud champion to act as the pivotal person to drive an internal review of policies and procedures, with the task of planning and executing a full refresh of the counter fraud arrangements within the Council, providing regular reporting to both the Leadership Team and the Section 151 Officer. This work is ongoing.

## **6 EFFECTIVENESS OF INTERNAL AUDIT**

- 6.1 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1 April 2013 (revised 2016 and 2017) and the code of ethics for internal auditors. The Standards require periodic self assessments and an assessment by an external person at least every five years.
- 6.2 An external quality assessment of the Council's Internal Audit function was commissioned in January 2018, to establish the degree of conformance with the Public Sector Internal Audit Standards (PSIAS). A copy of the report is provided at Appendix 5.

- 6.3 The assessment concluded that Rochford District Council's Internal Audit Service 'generally conforms' to the requirements of the Public Sector Internal Audit Standards and the requirements of the Local Government Application Note. From the evidence reviewed as part of the external quality assessment, it is apparent that the Council's Internal Audit service is a competent, professional and well respected service that is on a journey to improve its overall efficiency and effectiveness. The service follows best practice wherever it can, and is willing to adapt to the changing needs of the Council.

## **7 ISSUES FOR THE ANNUAL GOVERNANCE STATEMENT**

- 7.1 No issues, other than those already disclosed, have come to the attention of the Chief Audit Executive that need to be disclosed in the Annual Governance Statement.

## **8 RISK IMPLICATIONS**

- 8.1 Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that weaknesses in the Council's governance, risk management and internal control framework may not be promptly identified and remedied. Failure to do so may mean the Council does not achieve its vision and objectives.

## **9 RESOURCE IMPLICATIONS**

- 9.1 The current level and make up of in-house and other available third party internal audit resource is considered sufficient at present.
- 9.2 Thought is to be given to supplementing broader existing in-house resource in areas where there is a lack of expertise or resource, such as ICT audit and counter fraud.

## **10 LEGAL IMPLICATIONS**

- 10.1 The Accounts and Audit Regulations 2015 (section 5) require the Council to undertake an effective programme of internal auditing to evaluate the effectiveness of its risk management, control and governance processes, taking into account relevant public sector internal auditing standards or guidance.

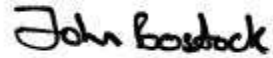
## **11 EQUALITY AND DIVERSITY IMPLICATIONS**

- 11.1 None.

## **12 RECOMMENDATION**

It is proposed that the Committee **RESOLVES**

That the Chief Audit Executive's opinion on the overall adequacy and effectiveness of the Council systems of governance, risk management and internal control be noted.



John Bostock

Assistant Director, Democratic Services

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**Background Papers:-**

None.

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**COMPLETED AUDIT ENGAGEMENTS SUMMARY – APPENDIX 1**

AUDIT ENGAGEMENT	CORE ELEMENT OF PLAN	ASSURANCE RATING	REPORTED TO AUDIT COMMITTEE	RECOMMENDATION CATEGORY			
				C	S	M	L
Trading Company Governance	Failure to ensure good governance of the Council’s activities and delivery of its priorities	Adequate	26 September 2017			1	
Risk & Performance Management	Failure to ensure good governance of the Council’s activities and delivery of its priorities	Adequate	26 September 2017			4	
Waste Management	The Council could fail to provide consistent Value for Money (VFM) across all services or to obtain VFM in its procurement	N/A Overview Report	26 September 2017			1	
Bank Reconciliation	Failure to ensure good governance of the Council’s activities and delivery of its priorities	N/A Overview Report	26 September 2017			1	
Licensing (Report 3)	Failure to ensure good governance of the Council’s activities and delivery of its priorities	Adequate +	16 January 2018			1	1
Asset Management (Report 6)	Failure to ensure good governance of the Council’s activities and delivery of its priorities	Adequate -	16 January 2018			2	1
Environmental Health (Report 7)	There is a serious food or health & safety, environmental or other incident for which the Council is culpable	Limited	16 January 2018		3	7	3
Business Rates (Report 8)	Failure to ensure good governance of the Council’s activities and delivery of its priorities	Good	16 January 2018			1	2

AUDIT ENGAGEMENT	CORE ELEMENT OF PLAN	ASSURANCE RATING	REPORTED TO AUDIT COMMITTEE	RECOMMENDATION CATEGORY			
				C	S	M	L
Waste Contract (Report 9)	The Council could fail to provide consistent Value for Money (VFM) across all services or to obtain VFM in its procurement	Limited	16 January 2018			6	1
Council Tax (Report 10)	Failure to ensure good governance of the Council’s activities and delivery of its priorities	Good	16 January 2018				1
Cash & Bank (Report 11)	Failure to ensure good governance of the Council’s activities and delivery of its priorities	Adequate	22 May 2018			3	1
Housing Benefits (Report 12)	Failure to ensure good governance of the Council’s activities and delivery of its priorities	Adequate	22 May 2018				2
Health & Safety (Report 13)	There is a serious food or health & safety, environmental or other incident for which the Council is culpable	Adequate	22 May 2018			6	8
Payroll (Report 14)	Failure to ensure good governance of the Council’s activities and delivery of its priorities	Good	22 May 2018				1
Debtors (Report 15)	Failure to ensure good governance of the Council’s activities and delivery of its priorities	Limited	24 July 2018**				TBC
Value Based Recruitment (Report 16)	Failure of safeguarding arrangements	N/A Overview Report	22 May 2018	-	-	-	-

AUDIT ENGAGEMENT	CORE ELEMENT OF PLAN	ASSURANCE RATING	REPORTED TO AUDIT COMMITTEE	RECOMMENDATION CATEGORY			
				C	S	M	L
Procurement (Report 17)	The Council could fail to provide consistent Value for Money (VFM) across all services or to obtain VFM in its procurement	Limited	24 July 2018**				TBC
Risk Management (Report 18)	Failure to ensure good governance of the Council’s activities and delivery of its priorities	N/A Overview Report	22 May 2018	-	-	-	-
Counter Fraud (Report 19)	Failure to ensure good governance of the Council’s activities and delivery of its priorities	N/A Overview Report	22 May 2018	-	-	-	-
Consultancy & Engagement (Report 21)	Failure to engage with stakeholders to understand and communicate what the Council should be trying to achieve	N/A Overview Report	22 May 2018	-	-	-	-
ICT Security (Report 23)	Failure to ensure good governance of the Council’s activities and delivery of its priorities	N/A Overview Report	22 May 2018	-	-	-	-

*\*\* Testing completed but insufficient time to complete report agreement process to meet Committee publishing deadlines*

OTHER WORK UNDERTAKEN		
AUDIT AREA	NATURE OF WORK	REPORTED TO AUDIT COMMITTEE
Housing Benefit Subsidy Claim	An in depth review of 41 benefit cases across 2016/17 selected by and on behalf of EY, the external auditor. This is a major piece of work taking in excess of 20 audit days and feeds into EY’s own work on Grants Certification (Reported to Committee 16/1/18). As a result no Audit Opinion is given.	26 September 2017



Appendix 2

**AUDIT ENGAGEMENTS COMPLETED SINCE SEPTEMBER 2017**  
**AUDIT COMMITTEE**

**CASH & BANK – REPORT 11**

**Audit objective**

To assess whether the key controls in the key financial systems are adequately designed and effectively applied.

**Corporate links**

This audit contributes to the assurance available in regard to the following Business Plan objectives and risks identified on the corporate risk register:

**Business Plan objective**

- Maximise our assets
- Become financially self-sufficient

**Corporate risk**

- Failure to ensure good governance of the Council’s activities and delivery of its priorities
- Data is lost, disclosed or misused to the detriment of individuals or organisations

**Reason for inclusion in the annual audit plan**

This audit is a planned, standard assurance review identified through the annual assessment of all Council’s activities.

**Audit opinion**

Our opinion is expressed on the scale of assurance as set out below:



Good	Adequate	Limited	None
	✓		
<p>The daily cash and banking function is well established with sufficient controls and procedures that are effectively and consistently applied.</p> <p>There is not an effective means of reconciling the General Ledger to the Bank Statement although there are effective procedures in place for identifying and processing income and expenditure to correct finance codes or accounts on a daily basis.</p> <p>There can be periods of over a working week, for cheques remitted in the normal course of business, to be credited to the Council’s bank account. This is not due to inactivity on the Council’s part and the recommendation under the second risk area below relates to liaising with the Council’s bankers to seek timelier processing.</p> <p>The remaining recommendations are made to enhance existing controls.</p>			

Our opinion is expressed as a level of assurance as set out in the table below. We have formed our audit opinion based on how well controls have been designed and effectively operated to mitigate the following risks:

Risk area	Assurance Level	No. of Recommendations
Payments to the council from originating payment systems (e.g. Direct Debits, debit/credit card payments, by telephone and website, car parking income etc.) are not completely and accurately recognised on the income management system	<b>Good</b>	1 Moderate <i>(Recommendation No 1)</i>
Cash received is not banked in full, promptly and securely	<b>Good</b>	1 Moderate <i>(Recommendation No 2)</i>
Account balances do not reflect all transactions following incomplete or incorrect reconciliations with other key financial systems and the bank	<b>Adequate</b>	1 Moderate <i>(Recommendation No 3)</i>
The relevant financial system is inappropriately accessed leading to error, fraud, or loss or misuse of data	<b>Adequate</b>	1 Low <i>(Recommendation No 4)</i>

**HOUSING BENEFITS – REPORT 12**

**Audit objective**

To assess whether the key controls in the operations undertaken by Revenues and Benefits are adequately designed and effectively applied

**Corporate links**

This audit contributes to the assurance available in regard to the following Business Plan objectives and risks identified on the corporate risk register:

**Business Plan objective** Maximise our assets

**Corporate risk** Failure to ensure good governance of the Council’s activities and delivery of its priority outcomes

Council held data is lost, destroyed, disclosed or misused to detriment of individuals or organisations

**Reason for inclusion in the annual audit plan**

This audit is a planned, standard assurance review identified through the annual assessment of all Council’s activities.

**Audit opinion**

Our opinion is expressed on the scale of assurance as set out below:



Good	Adequate	Limited	None
	✓		

A change in the shared-room LHA rate was not identified at the time of setting parameters for 2017/18. This was corrected in December 2017, prior to Internal Audit work. This meant potential underpayment of benefit for affected claimants and work is under way to correct claims so affected. Steps are being put in place to avoid this type of error again.

Backlogs, due to resourcing issues, were seen in processing changes in circumstances early during the year, which resulted in incorrect payments being made to claimants until processed. These have now been addressed but at an increased rate of overpayments classified as Administrative Delay, which could have an impact on the HB Subsidy Claim.

A revised form of quality assurance of accuracy of assessments was introduced during the year, which appears effectively managed. Overpayments of benefit are actively pursued and procedures are under consideration as part of a Council-wide review of debt management

Our opinion is expressed as a level of assurance as set out in the table below.

We have formed our audit opinion based on how well controls have been designed and effectively operated to mitigate the following risks:

Risk area	Assurance Level	No. of Recommendations
The Housing Benefit system's parameters are inaccurate leading to incorrect assessments and payments	Adequate	None. <i>See Audit Opinion</i>
Claims are processed inaccurately resulting in inaccurate payments	Good	None
Payments are not made accurately, completely or in a timely fashion	Adequate	None <i>See Audit Opinion</i>
Overpayments are not identified and actively pursued	Adequate	1 Low
Inappropriate or unauthorised access to financial systems leading to error, fraud, or loss or misuse of data	Good	None
Staff are not asked to declare relevant interests regarding residents and businesses and or declarations are not acted upon appropriately leading to an inability to counter perceptions of favouritism	Good	1 Low

**HEALTH & SAFETY – REPORT 13**

**Audit objective**

To assess whether the improvement actions from the 2015 peer review of the Council’s management of Health and Safety (H&S) are progressing in a timely manner to develop an effective H&S regime.

**Corporate links**

This audit contributes to the assurance available in regard to the following Business Plan objectives and risks identified on the corporate risk register:

**Business Plan objective** Health & Safety requirements relate to all Business Plan Priorities

**Corporate risk** Failure to ensure good governance of the Council’s activities and delivery of its priorities

**Reason for inclusion in the annual audit plan**

This audit is a planned, standard assurance review identified through the annual assessment of all Council’s activities.

**Audit opinion**

Our opinion is expressed on the scale of assurance as set out below:



Good	Adequate	Limited	None
	✓		
<p>Many improvements have been made since the last review, and the Council continues to improve health and safety arrangements including oversight and training although there are fundamental weaknesses in health and safety controls and inconsistencies in the application of controls.</p> <p>There is scope to review Council leases and agreements to ensure understanding of respective responsibilities for risk assessments by the Council and its partners, and to ensure risk assessments are completed for all areas for which the Council is responsible.</p> <p>Improvements have been made to training records, however training is required for use of some equipment, but evidence that the training had been completed was not always held.</p> <p>COSHH assessments (or nil returns) should be completed for all Council locations. Contracts do not always identify health and safety requirements, and contract management should be developed to ensure health and safety issues and responses are monitored.</p> <p>The Council has previously conducted asbestos surveys and compiled asbestos</p>			

registers for some but not all Council premises, and is therefore not able to demonstrate that staff or contractors are aware of all potential asbestos hazards. Since the audit fieldwork, a contractor has been commissioned to conduct surveys and complete the asbestos register, this work is in progress.

Where remedial actions are undertaken to enable machinery or equipment to be safely operated, associated records sometimes lack details which would demonstrate compliance with health and safety requirements.

Leadership team minutes do not always record decisions (such as approval of policies), agreed actions (stating assigned responsibility) or desired outcomes

Our opinion is expressed as a level of assurance as set out in the table below. We have formed our audit opinion based on how well controls have been designed and effectively operated to mitigate the following risks:

<b>Risk area</b>	<b>Assurance Level</b>	<b>No. of Recommendations</b>
Failure to ensure the health & safety of Members, staff and visitors whilst on Council premises or when on Council business away from Council premises	<b>Limited</b>	2 Moderate <i>(Recommendations 1 &amp; 2)</i>  4 Low <i>(Recs 3, 4, 5 &amp; 6)</i>
Failure to train Members and staff in their responsibilities under H&S legislation, Council H&S Policy and relevant procedures	<b>Adequate</b>	1 Moderate <i>(Recommendation 7)</i>
Failure to provide effective emergency procedures across Council premises specifically structured to meet specific location requirements	<b>Adequate</b>	1 Moderate <i>(Recommendation 8)</i>  2 Low <i>(Recs 9 &amp; 10)</i>
Failure to ensure that contractors, partners or companies working for or with the Council have effective policies and procedures to meet H&S requirements	<b>Limited</b>	2 Moderate <i>(Recs 11 &amp; 12)</i>
Failure to provide frequent and clear reporting to senior management on progress addressing the areas for improvement to ensure there is effective oversight	<b>Good</b>	1 Low <i>(Rec 13)</i>
Failure to develop, approve and implement key H&S policies	<b>Good</b>	1 Low <i>(Rec 14)</i>

**PAYROLL – REPORT 14**

**Audit objective**

To assess whether the key controls in the key financial systems are adequately designed and effectively applied.

**Corporate links**

This audit contributes to the assurance available in regard to the following Business Plan objectives and risks identified on the corporate risk register:

**Business Plan objective**

- Maximise our assets
- Become financially self-sufficient

**Corporate risk**

- Failure to ensure good governance of the Council’s activities and delivery of its priorities
- Data is lost, disclosed or misused to the detriment of individuals or organisations

**Reason for inclusion in the annual audit plan**

This audit is a planned, standard assurance review identified through the annual assessment of all Council’s activities.

**Audit opinion**

Our opinion is expressed on the scale of assurance as set out below:



Good	Adequate	Limited	None
✓			
The Payroll process has sufficient and consistently applied controls to ensure that payments to staff are accurate, on time and authorised appropriately.			

Our opinion is expressed as a level of assurance as set out in the table below.

We have formed our audit opinion based on how well controls have been designed and effectively operated to mitigate the following risks:

Risk area	Assurance Level	No. of Recommendations
Payments are made to ghost employees	Good	None
Staff records are amended incorrectly (e.g. in relation to increments awarded or change in salary etc.) or inappropriately (e.g. due to fraud) resulting in inaccurate payments	Good	None
Incomplete or inaccurate payments are made to staff due to errors in processing of BACS instructions	Good	None

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Risk area	Assurance Level	No. of Recommendations
Salary deductions (e.g. of income tax, national insurance, pension and other voluntary deductions) are incompletely or incorrectly made	<b>Good</b>	1 Low
Staff continue to be paid after they have left	<b>Good</b>	None
Payroll payments are made early or late	<b>Good</b>	None
The relevant financial system is inappropriately accessed leading to error, fraud, or loss or misuse of data	<b>Good</b>	None



**Appendix 3****VALUE BASED RECRUITMENT – REPORT 16**

As part of the 2017/18 Internal Audit Plan a review was carried out on the procedures in place to recruit members of staff. This was to ensure that measures are in place to recruit the right person for a role and in particular into roles that require a higher degree of risk in posts that may involve working with children or vulnerable adults. Late in 2017 a Value Based Recruitment procedure was rolled out and training was given to officers that would be actively involved in the selection of candidates.

The new procedures align the recruitment process to the values adopted within the People Plan; Innovative, pro-active, customer focussed and maximise potential. The aim is to get the right people, with the right values and behaviours in place to deliver services to our residents. Mandatory sets of questions based on these values form part of the interview requirements. The procedures are detailed and cover the requirements for advertising, shortlisting, interviews, post interview checks and appointing a successful candidate. The procedures are detailed in respect of equality requirements.

The procedures also detail what needs to be done in addition when recruiting into roles dealing with vulnerable persons in respect of determining if a role requires a Disclosure & Barring Service (DBS) check, if past convictions may play a relevant part in shortlisting and following this through to obtaining a DBS check as required. For these roles there is a mandatory set of safeguarding questions additional to the value based questions. For good measure there is also a range of health and safety related questions for applicant seeking a supervisory / management position.

There are procedures in place to determine if posts, to be temporarily filled by agency workers, require a DBS check and changes have been made in the Staffing Requirement Form to ensure that evidence is obtained of a recent, valid DBS check prior to an agency worker starting in a relevant role.

**RISK MANAGEMENT – REPORT 18**

An overview of the Council's risk management procedures was carried out.

The process is long-established but evolves in line with requirements. The process is based on a Risk Management Policy & Framework which has undergone a review in 2017/18 to ensure risk management of corporate projects linked to the Business Plan are fully incorporated. This document also sets out the responsibilities of officers and teams in maintaining the process.

The framework is underpinned by the Corporate Risk Register (CRR), which, since quarter 3 in 2017/18 is subject to a rolling review of risks, by the Leadership Team, to ensure that they accurately describe the risk and that the stated controls to mitigate the risk are relevant and active. Over a 12 month period all risks will be reviewed. A new risk has been introduced in 2017/18 relating to the General Data Protection Regulations which come into force in May 2018. The risk framework and policy will be reported annually (any updates made at Sept if required in year) and the updated CRR will be reported on a six monthly basis to the Audit Committee.

The CRR is supported by Service Area Risk Registers (SARR) which document service specific risks. The SARR are considered to be generally fit for purpose but are dated and require review. A review started in 2017 but this has not been carried out by all service areas and is being actively progressed. A full overview of stated controls was carried out, without supporting testing at this stage, and on the whole they appear relevant although there are some that are out of date, stating controls or procedures that no longer exist. In addition there were several controls or procedures that are actually in place that are not included on the SARR. There were a few risks that could be considered for inclusion in the SARR. There could be scope for GDPR / data risks being included where there are service specific requirements. In many cases where data control was referred to as a risk the only controls specified were those relating to IT, not manual records.

Details of this SARR review has been provided to the officer with risk management responsibility and the points raised have been included in the live SARR for

### **COUNTER FRAUD – REPORT 19**

An overview was made of the counter fraud measures in place within Rochford DC. The risk of fraud, and error, is considered as part of the scoping for any Internal Audit engagement.

A review of potential fraud risks within service areas was carried out; identifying potential outcomes but recording the policies, controls and procedures that can mitigate such risks based on knowledge of the authority. Limited specific testing was carried in relation to these controls, at this review. However, when testing was carried out within key financial systems it was done by identifying key controls and procedures and confirming original documentation against system output to ensure accuracy of input. Where management controls are said to be in place they are tested for both existence and effectiveness. Where a full audit engagement was not carried out follow-up testing was made in areas where recommendations for improved controls were raised during the 2016/17 audit year. System access and user permissions and password controls were reviewed within key systems to ensure only those with appropriate need can carry out system functions. Testing was also carried out on password control and to ensure access to the RDC Network was appropriate. No frauds were identified resulting from Internal Audit work.

The Revenues and Benefits service faces the highest level of fraud attempts in the Council both by volume and value in areas of discounts, exemptions or benefits claimed. The Team is proactive in its counter fraud work and has identified and has recovered or is seeking to recover several thousands of pounds during the year.

Transparency and openness are key defences against fraud and corruption and measures are in place to ensure Members and Officers record any interests that could be considered a potential conflict to decision making processes. Procedures are also in place to enable recording of gifts or hospitality, either accepted or declined, for Members or Officers, although the relevant registers are little used.

The Council has an Anti-fraud & Corruption Policy and Strategy which was last updated in December 2013. The document was reviewed in 2017/18 as part of this

audit work and considered to be fundamentally relevant but with updates required to reflect both changes in the Council and DWP legislation since the last version. There is an anti-money laundering procedures document that was last updated in 2014. The risk of money laundering at RDC is considered Low and key points of the legislation are addressed but there have been additional considerations to include arising from 2017 amendments. These policies will be updated during 2018/19. There is also a Whistle Blowing Policy stating how staff may express concerns they may have. This was last updated in September 2016 and apart from minor changes in the senior management structure appears fit for purpose.

### **CONSULTATION AND ENGAGEMENT – REPORT 21**

As part of the 2017/18 Annual Audit Plan an overview of consultation processes carried out by the Council was undertaken to assess whether consultation and engagement was used to inform service planning and the 2018/19 budget.

There are a several measures in place to communicate with residents and obtain their views. The “Tell me More” function on the website enables residents, and businesses, to receive information on a range of services. There is an active “Have your Say” group and Facebook and Twitter provide the opportunity for responses to Council postings.

Whilst there is no formal consultation policy in place there is a Consultation Guide for Staff. Although this requires an update it still provides useful information for any service that wishes to carry out a consultation exercise.

A survey was carried out prior to setting the budget for 2018/19. The questions covered which services are important to residents and how satisfied they are with services provided, as well as asking for any comments or ideas on how the Council can ensure best value for money. This survey was promoted and made available online, through partner organisations, including the Local Strategic Partnership, and using social media. Hard copies of the survey were made available at both Council receptions and at libraries in the District. Feedback from the survey, which resulted in 136 responses, was provided online, via a Have Your Say newsletter, through the media and was also reported at the Extraordinary Council meeting of 13/2/18.

The procedures for consulting on the Local Plan are more prescribed and are based upon the Statement of Community Involvement, the current version of which was adopted in 2016. Residents were consulted on the ‘Local Plan: Issues and options document (and draft sustainability appraisal)’, which closed early in March 2018. As part of the scoping approval Members of the Planning Policy Sub-Committee recommended to Council, subsequently so agreed, that all properties in the District receive a leaflet on the consultation. There was a mail out to some 5-6k residents on a Planning and Regeneration Services mailing list and use made of the website, social media and traditional local media, including advertisements and posters. Hard copies of the consultation were made available at libraries and at both Council receptions, with the means to provide a response offline. Drop-in events were held in Rayleigh, Hockley and Rochford. This consultation resulted in around 650 responses. These will be considered in the next phase of the local plan process.

In conclusion the overview undertaken has provided assurance that the Council makes use of appropriate means to engage with residents.

### **ICT SECURITY – REPORT 23**

This review is a non-technical overview of the security arrangements around the Council's ICT. This is based upon questionnaires sent to EduServ, the Council's ICT provider, discussions with Rochford based staff and other available information.

In September 2017 the Council's ICT infrastructure passed to EduServ's data centre from the existing ICT provider. Since then, where possible, servers and applications have migrated to the Azure cloud in line with the Council's migration plan. Some older servers and related applications are no longer supported and could not be migrated. Work is under way to replace these servers to permit full migration later in the year.

Both the datacentre and Azure hold accreditation under the ISO 27001 standard for information security.

The Council's procedures relating to Network access, which is the gateway to operational systems, appears effectively managed with complex password parameters that are system driven for a periodic change. Key financial systems have effective procedures for access and permissions. Remote access is by means of additional authentication. Emails can be accessed remotely using secure software for authorised users.

The Council does not hold certification for the Public Sector Network. This is primarily due to use of the unsupported servers, which potentially could have vulnerabilities. The Council had a penetration test at the time of last application and all recommendations had been implemented, with the exception of server issues. An ICT health check is underway at the time of writing this document which will include penetration testing.

EduServ and Azure use industry standard malware protection, including servers still domiciled at Rochford. All supported servers are up to date in respect of updates and patches. All laptops issued to staff are updated in respect of software and malware protection when returned to the IT Team. Regular backups of Council data are taken.

Installation of software is restricted to authorised users only. Mobile storage devices such as flash drives have to be configured before they can be used on Council equipment.

There are a range of policies and procedures under the umbrella of the Corporate Information Security Policy. Users of the Network must sign an Acceptable Use and Personal Commitment Statement to confirm acceptance of the policies and procedures. The policies are considered fit for purpose but do require an update.

**PROGRESS OF AUDIT RECOMMENDATIONS – APPENDIX 4**

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
6 2016/17	Debtors	5	S	The Corporate Debt Policy will be re-written to clarify ownership, scope, usage (including escalation processes), procedure and Legal requirements dependant on the nature of the debt. It should be in-line with the Council’s Constitution and the scheme of financial delegation, along with the Local Government Ombudsman and be available for use by internal staff to ensure adherence to all debt recovery matters.	Agreed Implementation Date 31/7/2017  Included in Finance BPR which is a work in progress. Revised 31/10/17. A project to reconstruct the Corporate Debt Policy will commence and is expected to complete June 2018. This will be monitored via project management. Review for progression 31/1/18  Project end date anticipated to be by 31/7/18
6 2016/17	Debtors	6	S	Formal operational debt recovery procedures for staff use will be documented which will translate the Corporate Debt Policy into required actions so staff consistently and effectively recover income.	Agreed Implementation Date 31/7/2017  Included in Finance BPR which is a work in progress. Revised 31/10/17. This will be monitored via project management. Review for progression 31/1/18  Project end date anticipated to be by 31/7/18

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
6 2016/17	Debtors	7	S	Reports will be provided that calculate and state the level of debts that are paid within payment terms	Agreed Implementation Date 31/7/2017  Included in Finance BPR which is a work in progress. Revised 31/10/17. This work will be carried out as an add-on to the Finance System and will be done after that system is migrated to the Cloud is completed. Revised end date 30/9/18
6 2016/17	Debtors	8	S	A clear aged debtor report will be sent to management on a monthly basis to give a breakdown of debt outstanding by age and value. The aged debtor report should be supported by summary detail of activity taken in the last month to recover debt.	Agreed Implementation Date 31/7/2017  Included in Finance BPR which is a work in progress. Revised 31/10/17. This work will be carried out as an add-on to the Finance System and will be done after that system is migrated to the Cloud is completed. Revised end date 30/9/18
10 2016/17	Compliance with Contract Procedure Rules	1	S	Submit a request for an exemption for the procurement of emergency accommodation for the homeless based on rule 3.4.  Arrangements to provide ongoing, non-emergency accommodation needs to awarded through an appropriate procurement procedure in line with	All options are being re-considered to effectively deal with provision of temporary accommodation following implementation of homeless reduction legislation. Guidance is being sought as to the most effective means to deal with this

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
				CPR given total contract value.	aspect of procurement. Revised end date 31/7/18
10 2016/17	Compliance with Contract Procedure Rules	4	M	The administration for contract management will be reviewed and implemented by the Procurement Team and formal procedure notes will be written and maintained. This will include the maintenance and storage of files.	<p><i>Agreed Implementation Date 30/4/2017 for the administrative function. Implemented</i></p> <p>Procedure notes / tool kit are under development and will be finalised shortly. , Some training has taken place. Revised to 31/1/18 Implemented</p> <p style="text-align: right;">DELETE</p>
10 2016/17	Compliance with Contract Procedure Rules	7	M	<p>As part of the next review of CPR, review the following to ensure exemptions are used in an appropriate manner but also supports the delivery of business objectives:</p> <ul style="list-style-type: none"> <li>• threshold for exemptions</li> <li>• criteria for exemptions provides sufficient clarity on the principles of when exemptions are appropriate</li> </ul>	<p>Agreed Implementation Date 30/11/17</p> <p>The Contract Procedure Rules were last updated early in 2016 and are still considered fit for purpose at this time. There are no immediate plans to update the CPR; however the recommendation will be fully considered in the next review, which is likely to take place in 2018/19</p> <p>Revised end date <b>31/3/19</b></p>

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
14 2016/17	Housing Benefits	3	M	Recovery procedures will be reviewed to identify cases where there little or no likelihood of recovery of overpayments in order to focus resource on collectable debt	<p>Agreed Implementation Date 30/6/17. Procedures under review. Revised Date 24/11/17</p> <p>A project to reconstruct the Corporate Debt Policy will commence and is expected to complete June 2018. This will be monitored via project management. Review for progression 31/1/18</p> <p>Project end date anticipated to be by 31/7/18</p>
17 2016/17	Business Continuity	3	M	Contracts with hosted software will be reviewed to ensure there are specific Recovery Point and Recovery Time objectives within them which can influence continuity planning	<p>Agreed Implementation Date 31/10/17. Under review as part of the ICT Migration Project. Revised to 31/1/18</p> <p>To take to new system administrator group with first meeting scheduled in May. Will include as an action point arising.</p> <p>Anticipated to be by 30/6/18</p>
2 2017/18	Performance & Risk Management	2	M	The Performance Framework will be redrafted to reflect the current operational structure of the Council and to align it with the Business Plan 2016-2020	<p>Agreed Implementation Date 31/12/17</p> <p>Framework is a work in progress and roll out will link in to Business</p>



Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
					Plan projects. Revised end date 28/2/18 Due to key work in Project Management Office this has been delayed. Expected end date by 31/7/18
2 2017/18	Performance & Risk Management	3	M	Level-appropriate training will be provided to those with responsibility for maintaining operational risk registers	Agreed Implementation Date 31/12/17 Training to be delivered in January. Revised to 31/1/18. January training related to contract risks. Wider training to be provided. Revised end date 31/8/18
2 2017/18	Performance & Risk Management	4	M	Performance measures going forward will be reviewed in line with the Business Plan 2016-2020 and will be designed to identify at an early stage if key elements of The Plan are not on schedule	Agreed Implementation Date 31/12/17 Project management is to be refocused with new monitoring tools to be put in place. Revised end date 28/2/18  Due to key work in Project Management Office this has been delayed. Expected end date by 31/7/18

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
3 2017/18	Licensing	2	M	Procedures will be revised to improve the ability to monitor for receipt of initial and renewal licensing fees to ensure that said fees are paid in a timely manner and to reduce the risk of following up an unpaid fee when it had in fact been paid	Agreed Implementation Date 31/1/18  Working with IT & Finance to obtain notification of payments. Still a work in progress. Revised 31/3/18  DELETE
6 2017/18	Asset Management	1	L	The old version of the Asset Management Plan will be taken down from the Council's website	Agreed implementation date 31/12/17 Implemented  DELETE
6 2017/18	Asset Management	3	M	The Asset Register will be brought up to date and maintained. A current version will be available as a source document for those with need	Agreed Implementation date 31/3/18. Revised end date 31/7/18
7 2017/18	Environmental Health	1	S	The Council's Enforcement Policy , Environmental Services will be reviewed and published in relevant pages on the Council's website  Relevant Policy and procedures will be produced for Environmental Health, which was originally part of Environmental Services and included in old version of Enforcement Policy	Agreed Implementation date 30/4/18  Agreed Implementation date 30/6/18
7 2017/18	Environmental Health	2	S	The services will explore measures to build resilience and increase capacity in the Environmental Health team	Agreed Implementation date 31/3/18 Implemented  DELETE

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
7 2017/18	Environmental Health	3	M	The Environmental Health team should consider removing category E interventions (all questionnaires) from the main inspection programme to free up officer time to focus on categories D – A.	Agreed Implementation date 31/3/18 Implemented DELETE
7 2017/18	Environmental Health	4	S	Management will consider improving expertise and obtaining support from software provider to make more effective use of the UniForm environmental health system	Agreed implementation date 30/4/18
7 2017/18	Environmental Health	5	M	Measures will be introduced to improve input and data integrity when uploading data to the Food Standards Agency	Agreed Implementation date 31/3/18 Implemented DELETE
7 2017/18	Environmental Health	6	M	The Food Complaint Policy and Procedure will be reviewed and updated as required	Agreed Implementation date 31/3/18. Marked forward in line with Food Service Plan 30/6/18
7 2017/18	Environmental Health	7	L	Consideration will be given to input follow up visit dates into UniForm to enhance monitoring	Agreed Implementation date 31/3/18. Implemented DELETE
7 2017/18	Environmental Health	8	L	Completion and documentation of officer CPD records will be reviewed	Agreed Implementation date 31/3/18. Revised to 30/4/18
7 2017/18	Environmental Health	9	M	The policy and procedures relating to Food Hygiene Rating Scheme appeals and outcomes will be documented as part of SOP Review	Agreed Implementation date 31/3/18. Marked forward in line with Food Service Plan 30/6/18

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
7 2017/18	Environmental Health	10	M	The Council will consider documenting more clearly the rationale for its current approach towards air quality monitoring and make the statement publicly available on the website or in the Executive Summary to the Annual Air Quality Status Report	Agreed Implementation date 30/6/18
7 2017/18	Environmental Health	11	M	Health & Safety enforcement policy and procedures will be reviewed and updated as required	Agreed Implementation date 31/5/18
7 2017/18	Environmental Health	12	M	External health & safety will be included in the Environmental Health Operational Risk Register, detailing risks, existing controls and actions required	Agreed Implementation date 31/3/18. Marked forward in line with Food Service Plan 30/6/18
7 2017/18	Environmental Health	13	L	Performance information that will be presented to Committee in the 2018/19 Service Plan will compare actual work carried out to the original targets set in the 2017/18 Service Plan, and explain any significant variances to management and members.	Agreed Implementation date 31/5/18
9 2017/18	Waste Management Contract	1	M	The Contract Manager will risk assess the Contract Specification to identify the most important requirements that need active and evidenced contract management activity. This risk assessment to direct and record contract management activity	Agreed Implementation date 31/3/18 Implemented DELETE

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
9 2017/18	Waste Management Contract	2	M	The Contract Manager will work with the contractor to determine better reporting tools to allow the information to be more transparent, malleable and relevant, allowing for appropriate management action to be taken and evidenced as required	Agreed Implementation date 31/1/18. Several PIs have been put in place with the last anticipated by end of April Implemented DELETE
9 2017/18	Waste Management Contract	3	L	Formal Contract Management training opportunities will be researched and if appropriate, attended, in order to support existing staff in their roles	Agreed Implementation Date 31/7/18
9 2017/18	Waste Management Contract	5	M	Business continuity arrangements will be confirmed with the contractor. Rochford's Business Continuity Plan for the contract will be updated to include specific plans in the event there is a major contractor failure	Agreed Implementation date 18/1/18 Implemented DELETE
9 2017/18	Waste Management Contract	6	M	The Council will seek to obtain financial information of the contractor that it is entitled to and can reasonably obtain in order to monitor its financial standing.	Agreed Implementation date 31/12/17 Implemented DELETE

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
9 2017/18	Waste Management Contract	7	M	The Contract Manager will review the contract to determine what documents are required by the Council ( <i>such as insurance certificates etc.</i> ) and seek copies of these. In addition, any other documents considered relevant will be requested to seek satisfaction that the Council is working within its statutory requirements. The maturity dates of any documents will be recorded and diary notes will be made to ensure copies of new versions are received at expiry	Agreed Implementation date 31/3/18 Implemented DELETE
11	Cash & Banking	2	M	The check of validity of transfers within Cash Receipting will be carried out in a timely manner and any sample reviewed must be selected by an officer other than that carrying out the day to day function.	Agreed Implementation date Immediate DELETE
11	Cash & Banking	2	M	Contact will be made with the Council's banker to determine why there is an average of 5-6 days in receiving value for cheques remitted when current banking process is to place funds on the account on day of processing.	Agreed Implementation date 28/3/18 Implemented DELETE
11	Cash & Banking	3	M	A detailed format / procedure will be developed to ensure effective bank account reconciliation is in place by year end.	Agreed Implementation date 30/4/18. Procedures may change with removal of kiosks and agreed mark forward for review at that time Revised end date 30/6/18

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
11	Cash & Banking	4	L	The system administrator for Cash Receipting will determine procedures for changing password parameters and for deleting users that no longer require access.	Agreed Implementation date 30/6/18
12	Housing Benefits	1	L	Consideration should be given to developing additional performance data that separates long term recovery, at statutory maximum for fraud cases, to give a more accurate reflection of day to day debt management when the full range of recovery options is available to the Recovery Team	Agreed Implementation date 31/3/18 Implemented DELETE
12	Housing Benefits	2	L	Agency workers employed on Housing Benefits will complete a declaration of interests	Implemented DELETE
13	Health & Safety	1	M	Enable review of all leases and management agreements to confirm responsibilities for risk assessments, and ensure all parties are aware of respective responsibilities	Agreed Implementation Date 1/6/18
13	Health & Safety	2	M	Conduct Fire Risk Assessments for all Council premises whether or not they are in use	Agreed Implementation Date 1/6/18
13	Health & Safety	3	L	An Asbestos Register is compiled for all Council assets, and maintained, and the Council ensures that persons working on Council premises are aware of any asbestos or other risks, and that notification of such risks is recorded	Agreed Implementation Date 1/5/18
13	Health & Safety	4	L	Identify areas where Health surveillance should be conducted, and introduce formal health surveillance monitoring and recording of impact. This is relevant to areas such as exposure to	Agreed Implementation Date 30/9/18

Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
				asbestos or hand arm vibration	
13	Health & Safety	5	L	Fire alarm tests are carried out at approximately the same day and time each week	Implemented DELETE
13	Health & Safety	6	L	Capture and track resolution of issues identified in fire marshal checks. This may be resolved with the implementation of the Abavus system	Implemented DELETE
13	Health & Safety	7	M	Training gaps are identified, and training is provided and recorded, before officers are permitted to use equipment requiring training	Agreed Implementation Date 1/5/18
13	Health & Safety	8	M	COSHH assessments and inventories are completed for all Council locations, and nil returns are recorded for locations where no such substances are held	Agreed Implementation Date 31/5/18
13	Health & Safety	9	L	The Health & Safety Officer provides instructions to responsible persons on preparation of Emergency Procedures for all Council locations, to include: evacuation, hazardous items, any safe locations and rescue equipment, exit / escape routes, nominated competent person, protocols for shutdown / isolation / making safe, assessment of safe to return, and training	Agreed Implementation Date 1/6/18
13	Health & Safety	10	L	Fire marshals are identified for all areas	Agreed Implementation Date 1/5/18
13	Health & Safety	11	M	Contract managers are instructed to ensure Health and Safety clauses are included in contracts, and health and safety matters are discussed as part of	Agreed Implementation Date 1/6/18



Report No	Report Title	Rec No	Risk	Recommendation	Implementation progress
				standard contract monitoring arrangements	
13	Health & Safety	12	M	Staff are instructed to ensure that orders and invoices state clear and sufficient detail concerning the nature of works (such as but not limited to equipment repair and maintenance) such as to provide clear evidence of works completed and outcomes (such as delivery of specified equipment in safe working order)	Agreed Implementation Date 30/6/18
13	Health & Safety	13	L	Ensure clarity of all Leadership Team decisions, actions (with assigned responsibility for actions) and desired outcomes, and track implementation of agreed actions and their effectiveness in achieving stated outcomes	Agreed End Date 1/4/18 Implemented  DELETE
13	Health & Safety	14	L	Establish arrangements for monitoring the effectiveness of implementation of policies	Agreed Implementation Date 30/6/18
14	Payroll	1	L	A periodic assurance test of payslips will be introduced to confirm the system is correctly performing on an individual basis	Agreed Implementation Date 25/4/18 Implemented  DELETE

# **External Quality Assessment of Conformance to the Public Sector Internal Audit Standards**

## **Rochford District Council**

### **Final Report**

**Lead Associate: Ray Gard, CPFA, FCCA, CFIIA, DMS**

**Internal QA: Policy & Technical Section, CIPFA**

**14 March 2018**

# **Review of Rochford District Council's Internal Audit Service – 8<sup>th</sup> to 12<sup>th</sup> January 2018**

## **1. Introduction**

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1<sup>st</sup> April 2013 (revised 2016 and 2017). The standards require periodic self-assessments and an assessment by an external person at least every five years.

## **2. Background**

Rochford District Council's (RDC) Internal Audit Service is based at the Civic Centre and provides internal audit services to the Council. The Service has had a number of changes in the recent past with only the Principal Auditor remaining from the original team. Following an adverse report from the Council's external auditors in 2015/16, changes have been made to the way the internal audit services operates which has greatly improved their efficiency and effectiveness, although the current Chief Audit Executive acknowledges that the Service is on a journey and there is still more to do.

The internal audit team comprises 2.4 full time equivalent (FTE) employees, comprising a shared Chief Audit Executive post with Basildon Borough Council, a Principal Auditor and a Senior Audit (vacant post). The Service does not currently use external specialists, such as computer auditors, to undertake any of the audits, although do obtain resources from Basildon Borough Council to cover vacant posts.

The Service had a peer review carried out by Essex County Council in 2016 and the output from this review formed the Services quality assurance and improvement plan. The Service has subsequently carried out a self-assessment to see how they compare to the requirements of both the PSIAS and the CIPFA local government application note (LAGN). However, the Chief Audit Executive felt that the time was right to have a full external quality assurance assessment of the Internal Audit Service and commissioned CIPFA to undertake this review.

## **3. Review Process**

The review was carried out between the 8<sup>th</sup> and 12<sup>th</sup> January 2018 through a process of interviews and document review. Interviews were carried out with the members of the Internal Audit Service, key stakeholders including members of Corporate Management Team, and the Chair and Vice-Chair of the Audit Committee.

The document review phase of the process involved a detailed review of the documents used and produced by the Internal Audit Service. The Service provided a comprehensive range of documents that were available for examination prior to and during this review. These included the Service's self-assessment against the PSIAS; individual audit files and working papers; and a range of reports and communications that demonstrated the flow of information between the Service, senior managers and the Audit Committee. Whilst all of these documents contributed to the process, the following are regarded as fundamental and a major contributor to the review process:

- the audit charter, covering reports and the Audit Committee terms of reference;
- progress reports to the Council's Audit Committee and senior management;
- the Internal Audit Manager's annual report and opinion to the Audit Committee;
- audit plans and covering reports to the Audit Committee;
- the audit procedures;
- individual audit files and working papers;
- staff declarations of interest; and

- staff training and development records.

#### 4. Conclusion and Opinion

From the evidence reviewed as part of the external quality assessment, it is apparent that the Council's Internal Audit Service is a competent, professional and well-respected Service that is on a journey to improve its overall efficiency and effectiveness. The Service follows best practice wherever it can, and is willing to adapt to the changing needs of the Council. They are providing an objective risk based internal audit service to the Council, but nonetheless there are opportunities to enhance and develop operations that they should embrace if they are to maintain their status within the Council and enhance their conformity to the PSIAS and the LGAN.

During this review, we identified no areas of non-compliance or partial compliance with the standards. We have however identified some minor observations that should be addressed.

**On this basis, it is our opinion that Rochford District Council's Internal Audit Service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the requirements of the Local Government Application Note.**

The minor observations identified during the review are set out in section five of the report, together with some recommendations (R) and suggestions (S) to address these issues. These recommendations and suggestions are included in the action plans at section seven of this report. The process also identified some opportunities (O) for the Service to enhance its operations although they do not have an effect on compliance with the standards. These have been included for information in section six of the report.

Conformance with the standards fall into one of three categories below, with further details set out in section nine of this report.

Generally Conforms	Partially Conforms	Does Not Conform
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A list of the individuals interviewed during the review is included as section eight of this report.

The Chief Audit Executive has been provided with details of the areas where there is scope to enhance conformity with the standards and incorporate good practice into Internal Audit's operations.

The co-operation of the Internal Audit Service in providing the information asked for, as well as those stakeholders that made themselves available for interview, was much appreciated and made it possible to obtain a thorough view of Internal Audit's practices and its contribution to the organisation.

## 5. Summary of observations, recommendations and suggestions

Standard	Compliance	Observations	Recommendations & Suggestions	No.
<b>Mission</b>	<b>Generally Conforms</b>	The audit charter includes the mission statement as required by the revised (2016) PSIAS		
<b>Core principles of internal audit</b>	<b>Generally Conforms</b>	Overall the internal audit service conforms to the core principles of internal audit although this is not currently stated in the audit charter or the CAE's annual report for 2016/17.	Reference should be included in the audit charter and the CAE's annual report to the Service's compliance with the core principles of internal audit, and the code of ethics for Internal Auditors.	R4
<b>Code of Ethics</b>	<b>Generally Conforms</b>	<p>The service is conforming to the code of ethics for internal audit although this is not specifically referred to in the 2016/17 annual report.</p> <p>The declaration of interest forms used by the service is the standard generic for used throughout the Council and does not require staff to confirm that they are conforming to Public Sector Internal Audit Standards, the Core Principles of Internal Audit, and the Seven Principles of Public Life.</p>	See suggestion S3 under standard 1100.	

Standard	Compliance	Observations	Recommendations & Suggestions	No.
<b>Attribute standards</b>				
<b>1000</b> Purpose, authority and responsibility	<b>Generally Conforms</b>	<p>The Internal Audit Service generally conforms to this standard. There are two minor observations, which are set out below.</p> <p>The first minor observation relates to the Council's anti-fraud and corruption policy. This document does not currently require the Chief Audit Executive to be notified of all frauds carried out against the Council, although this document is currently in the process of being reviewed.</p> <p>The second minor observation relates to the Council's Audit Committee, which has not undertaken a review of its remit and effectiveness for some time.</p>	<p>It is suggested that a paragraph is added to the revised anti-fraud and corruption policy stating that the Chief Audit executive should be informed of all frauds against the Council.</p> <p>It is suggested the Audit Committee undertakes a review of its remit and effectiveness using the check list in the CIPFA guide for Audit Committees at its earliest convenience.</p>	S1  S2
<b>1100</b> Independence and objectivity	<b>Generally Conforms</b>	<p>The Internal Audit Service generally conforms to this standard. There is one minor observation, which is set out below.</p> <p>Internal Audit staff are required to sign the standard Council generic declaration form on an annual basis, however this form does not include declarations that the internal auditors understand and will comply with the PSIAS, the Core Principles for Internal Auditors, the Code of Ethics for Internal Auditors, and the seven Principles of Public Life.</p>	<p>It is suggested that a specific declaration form is introduced for Internal Audit Staff covering their understanding and compliance with the PSIAS, the Core Principles for Internal Auditors, the Code of Ethics for Internal Auditors, and the seven Principles of Public Life.</p>	S3
<b>1200</b> Proficiency and due professional	<b>Generally Conforms</b>	<p>The Internal Audit Service generally conforms to this standard. There are two minor observations, which are set out below.</p>	<p>It is suggested that the Internal Audit Service finds a suitable IT audit partner to deliver a programme of in-</p>	S4

Standard	Compliance	Observations	Recommendations & Suggestions	No.
care		<p>The first minor observation relates to the need to strengthen the IT audit capabilities of the Internal Audit Service. Whilst the team has the skills to undertake high level IT audits they do not currently possess the skills to undertake more in-depth and technical IT audits.</p> <p>The service is currently carrying a vacant Senior Auditor post, although in the short term resources to cover this post are being obtained from Basildon Borough Council.</p>	<p>depth IT audits.</p> <p>Obtain additional audit resources to cover the vacant post.</p> <ul style="list-style-type: none"> <li>In the short term, this can be achieved by buying in audit resources from Basildon Borough Council and/or one of the frame work contracts that are in operation.</li> <li>A Longer term solution will be to embark on a recruitment exercise, however this will take time and there is a recognised shortage of good calibre and qualified internal auditors in London and the home counties.</li> </ul>	R1
<p><b>1300</b> Quality assurance and improvement programme</p>	<b>Generally Conforms</b>	<p>The Internal Audit Service generally conforms to this standard. There are two minor observations, which are set out below.</p> <p>The Chief Audit Executive's annual report does not currently make reference to the service conforming to the PSIAS. Once the actions included in the quality assurance and improvement programme and the issues identified during the external quality assessment have been implemented, a paragraph can be added to the annual report confirming that the service conforms to the PSIAS.</p> <p>At present, the main performance indicator used by the Service is the percentage of the</p>	<p>Add a paragraph to the Chief Audit Executive's annual report once all of the key actions set out in the Services quality assurance and improvement programme and the issues identified during this external quality assessment have been implemented.</p> <p>It is suggested that the Chief Audit Executive consults with the Senior Management Team and the Audit Committee to identify any further performance indicators that they would like to see the Service produce on a regular basis</p>	<p>S5</p> <p>S6</p>

Standard	Compliance	Observations	Recommendations & Suggestions	No.
		audit plan achieved to date and during the year. The Service could provide more detailed performance information to senior management and the Audit Committee.		
<b>Performance standards</b>				
<b>2000</b> Managing the internal audit activity	<b>Generally Conforms</b>	<p>The Internal Audit Service generally conforms to this standard. There are two minor observations, which are set out below.</p> <p>The first relates to the vacant Senior Auditor post and is covered in standard 1200 above.</p> <p>The second relates to the Service's documented procedures. The Service is on a journey to modernise and changes the way it operates, and although there are operational procedures in place, they would benefit from being updated to accommodate the changes that have been made, and include sections covering consulting assignments, the provision of services to external organisations, and the release of reports to those organisations.</p>	<p>The Service should revise its operational procedure documents to ensure they cover both assurance and consulting assignments, providing assurance for external organisations, the release of audit reports to external organisations, and reflect the way the Service currently operates.</p> <p>See also recommendation R1 in standard 1200 above</p>	R2
<b>2100</b> Nature of work	<b>Generally Conforms</b>	<p>The Internal Audit Service generally conforms to this standard. There is one minor observation relating to IT audit and this is covered in standard 1200 above.</p>	<p>See suggestion S4 in standard 1200 above</p>	
<b>2200</b> Engagement planning	<b>Generally Conforms</b>	<p>The Internal Audit Service generally conforms to this standard. There are two minor observations, which are set out below.</p> <p>The first relates to the Service's documented procedures and is covered in standard 2100</p>	<p>The Internal Audit Service should enter into formal arrangements with the external organisations that the Council is providing payroll services to, and then report the outcome of the</p>	R3



Standard	Compliance	Observations	Recommendations & Suggestions	No.
		<p>above.</p> <p>The second relates to the provision of payroll services by the Council to external organisations, however there are no formal arrangements in place to include payroll transactions for these organisations when auditing the payroll system.</p>	<p>audits to the respective organisations.</p> <p>See recommendation R3 above</p>	
<p><b>2300</b> Performing the engagement</p>	<p><b>Generally Conforms</b></p>	<p>The Internal Audit Service generally conforms to this standard</p>		
<p><b>2400</b> Communicating the results</p>	<p><b>Generally Conforms</b></p>	<p>The Internal Audit Service generally conforms to this standard.</p>		
<p><b>2500</b> Monitoring progress</p>	<p><b>Generally Conforms</b></p>	<p>The Internal Audit Service generally conforms to this standard</p>		
<p><b>2600</b> Communicating the acceptance of risks</p>	<p><b>Generally Conforms</b></p>	<p>The Internal Audit Service generally conforms to this standard</p>		

## 6. Opportunities to Enhance Services

Senior Management at Rochford District Council are keen to develop the way the Internal Audit Service operates and with this in mind the following opportunities have been identified.

O1	<p>The team does not use computer assisted audit techniques (CAATs) for audits. Using CAATs may need to be considered as an option for testing routine systems on a regular basis, such as the key financial systems, as this could free up staff resources to undertake audits that cannot be carried out by electronic means.</p>	<p>It is suggested that Internal Audit considers using computer assisted audit techniques (CAATs) to undertake regular audits to release time to undertake operational audits, VFM reviews, and consulting activities.</p>
O2	<p>Internal audit does not use any specialist audit management software (AMS) for their working papers or to manage the audits. Given the small size of the team, this is an acceptable method of working, however using a computerised audit management system will improve functionality and will add value to the operations of the service.</p> <p>However, the Council has entered into a 'partnership' arrangement with the Internal Audit Service at Basildon Borough Council to provide it with audit resources, and this Service does use an audit management system, which potentially could be utilised by the Council.</p>	<p>It is suggested that the potential for using Basildon Borough Council's audit management system is explored.</p>

## 7. Action Plan

### Recommendations

No	Recommendation	Response	Responsible Person	Action date
R1	<p>Obtain additional audit resources to cover the vacant post.</p> <ul style="list-style-type: none"> <li>In the short term, this can be achieved by buying in audit resources from Basildon Borough Council and/or one of the framework contracts that are in operation.</li> <li>A Longer term solution will be to embark on a recruitment exercise, however this will take time and there is a recognised shortage of good calibre and qualified internal auditors in London and the home counties.</li> </ul>	<p>Interviews are being held to fill the Senior Auditor post w/c 5/3/18 and w/c 12/3/18.</p> <p>Basildon continues to support delivery of the 2017/18 audit plan.</p>	Mike Porter, Chief Audit Executive	April 2018
R2	The Service should revise its operational procedure documents to ensure they cover both assurance and consulting assignments, providing assurance for external organisations, releasing documents to external organisations, and reflect the way the Service currently operates.	These will be examined and the relevant changes made.	Mike Porter, Chief Audit Executive	September 2018
R3	The Internal Audit Service should enter into formal arrangements with the external organisations that the Council is providing payroll services to, and then report the outcome of the audits to the respective organisations.	This has been addressed by the 2018/19 audit plan.	Mike Porter, Chief Audit Executive	During 2018/19
R4	Reference should be included in the audit charter and the CAE's annual report to the Service's compliance with the core principles of internal audit, and the code of ethics for Internal Auditors.	This will done.	Mike Porter, Chief Audit Executive	June 2018

## Suggestions

No	Suggestion	Response	Responsible Person	Action date
S1	A paragraph should be added to the revised anti-fraud and corruption policy stating that the Chief Audit executive should be informed of all frauds against the Council.	On review of the policy this will be added.	Mike Porter, Chief Audit Executive	September 2018
S2	It is suggested the Audit Committee undertakes a review of its remit and effectiveness using the check list in the CIPFA guide for Audit Committees at its earliest convenience.	CAE to discuss this with the Chair of the Audit Committee.	Mike Porter, Chief Audit Executive	TBA
S3	Introduce a specific declaration form for Internal Audit Staff covering their understanding and compliance with the PSIAS, the Core Principles for Internal Auditors, the Code of Ethics for Internal Auditors, and the seven Principles of Public Life.	This will be introduced.	Mike Porter, Chief Audit Executive	April 2018
S4	It is suggested that the Internal Audit Service finds a suitable IT audit partner to deliver a programme of in-depth IT audits.	This will be examined. The potential to appoint an IT Auditor, to be shared amongst Essex Audit Group members will also be explored.	Mike Porter, Chief Audit Executive	During 2018/19
S5	Add a paragraph to the Chief Audit Executive's annual report once all of the key actions set out in the Services quality assurance and improvement programme and the issues identified during this external quality assessment have been implemented.	This will be done.	Mike Porter, Chief Audit Executive	June 2018
S6	It is suggested that the Chief Audit Executive consults with the Senior Management Team and the Audit Committee to identify any further	A discussion will be had.	Mike Porter, Chief Audit Executive	September 2018

No	Suggestion	Response	Responsible Person	Action date
	performance indicators that they would like to see the Service produce on a regular basis.			

## 8. Interviewees

Person	Position	Organisation
Mike Porter	Chief Audit Executive	Rochford District Council
Shaun Scrutton	Managing Director	Rochford District Council
Naomi Lucas	Section 151 Officer	Rochford District Council
Matthew Petley	Head of Finance	Rochford District Council
Marcus Hotten	Assistant Director Environmental Service	Rochford District Council
Louisa Moss	Assistant Director Community and Housing	Rochford District Council
Rebecca Hurst	Deputy monitoring Officer	Rochford District Council
Clr Arthur Williams	Chair of the Audit Committee	Rochford District Council
Clr Mike Lucas-Gill	Vice-chair of the Audit Committee	Rochford District Council
James Kevany	Principal Auditor	Rochford District Council
Chris Hewitt	Partner	Ernst & Young (External Auditors)

## 9. Definitions of Conformance with the Standards

<b>Generally Conforms</b>	The internal audit service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects.
<b>Partially Conforms</b>	The internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit and conformance to the standards.
<b>Does Not Conform</b>	The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the elements of the standards. These deficiencies will usually have a significant adverse impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the board.

Ray Gard, CPFA, FCCA, FCIIA, DMS