
INTERNAL AUDIT PLAN AND CHARTER 2018/19

1 PURPOSE OF REPORT

- 1.1 To present the proposed 2018/19 audit plan and charter to the Audit Committee for consideration and approval.
- 1.2 The Internal Audit Plan for 2018/19 (Appendix A) builds on the previous year's work and is based on the corporate risks facing the Council. The plan represents all identified work for 2018/19 based on an assessment of such risks, but delivery of such is dependent on available audit resources.

This report also presents the Internal Audit Charter at Appendix B, which sets out the way in which Internal Audit will approach its remit.

2 INTRODUCTION

- 2.1 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 (PSIAS) or guidance.
- 2.2 The PSIAS in turn require Internal Audit to produce a risk-based Audit Plan that:-
- Gives the Chief Audit Executive (CAE) sufficient evidence to provide an annual audit opinion on the Council's framework of governance, risk management and internal control based on the outcome of the Plan's work;
 - Uses existing sources of assurance where possible; and
 - Demonstrates how internal audit work is linked to the Council's objectives and significant risks and, therefore, provide relevant assurance.
- 2.3 The PSIAS also require the Audit Committee to approve, but not direct, the audit plan. This means the Committee can and should challenge whether the plan is sufficient and adequately focused; particularly given the plan's purpose to provide the Committee, as part of those charged with governance, with a key source of assurance to be considered when it decides whether to recommend the Annual Governance Statement for signing by the Managing Director and Leader of the Council.
- 2.4 This report allows the Audit Committee to fulfil its requirements to approve the audit plan.
- 2.5 The PSIAS further require the plan to incorporate or be linked to a strategic or high level statement of how the internal audit service will be delivered and

developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities.

3 2018/19 AUDIT PLAN

- 3.1 The audit plan has been developed following meetings with all members of the officer Leadership Team to discuss their services and the Council's key objectives and risks. The feedback from these meetings informed a wider risk assessment that prioritised the Council's activities for audit coverage considering the following factors:-
- Corporate priorities and risks, and risk management (including fraud risks), including significant projects or proposals linked to corporate priorities;
 - Significant changes (such as to systems, structures, delivery models or governance arrangements);
 - Assessments of the systems of internal control (including recent Internal Audit assurance or assurance from reliable third parties), any known weaknesses or concerns (including relating to performance or data quality), and any areas where assurance is sought;
 - Inherent risk (such as whether the activity has significant income or expenditure, reputational sensitivity, inherent complexity, whether third parties are involved in delivery or if there is a high potential risk of fraud);
 - The Regulatory environment;
 - Effectiveness of governance arrangements (including oversight arrangements and complexity of operations); and
 - Horizon scanning to assess new risks and challenges.
- 3.2 The audit plan is structured in relation to the Council's corporate risks demonstrating the assurance the Audit Committee will receive in regard to these risks.
- 3.3 The audit plan is also linked to the Council's priorities from its 2016-2020 business plan, again demonstrating the assurance the Audit Committee will receive in regard to these.
- 3.4 The plan includes a number of other activities that, whilst not audits, are chargeable to the audit plan as they are integral to its delivery. These activities include audit planning, reporting to the Audit Committee and other audit management tasks, such as reviewing the audit charter and strategy.

4 RISK IMPLICATIONS

- 4.1 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.
- 4.2 Should there be insufficient resources to substantially complete the 2018/19 audit plan, there is a risk the CAE will not be able to provide an annual opinion for 2018/19.

5 RESOURCE IMPLICATIONS

- 5.1 None.
- 5.2 The audit plan has been prioritised; those reviews noted as priority 1 are key to enable the CAE to provide an annual opinion on the Council's framework of governance, risk management and internal control for 2018/19.

6 LEGAL IMPLICATIONS

- 6.1 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.

7 EQUALITY AND DIVERSITY IMPLICATIONS

- 7.1 There are no direct equality and diversity implications arising from this report.

8 RECOMMENDATION

- 8.1 It is proposed that the Committee **RESOLVES**

That the proposed audit plan and charter for 2018/19 be approved.



John Bostock
Assistant Director, Democratic Services

Background Papers:-

None.

For further information please contact Jim Kevany (Principal Auditor) on:

Phone: 01702 318075 (Extn 3213)

Email: james.kevany@rochford.gov.uk

If you would like this report in large print, Braille or another language please contact 01702 318111.

Internal Audit work needed in 2018/19 to provide an annual opinion

Activity to be audited	Objective of work	Business Plan priority	Audit Priority
Corporate risk: The Council could fail to provide consistent Value for Money (VFM) across all services or obtain VFM in its procurement			
Contracts Procurement & Purchasing	<p>To assess whether the requirements of Contract Procedure Rules are complied with for a sample of purchased goods and services across a range of values and service areas.</p> <p>To review the effectiveness of the corporate contract management framework and processes, including relating to assurance over supplier resilience.</p>	Financially self-sufficient	1
Contract Monitoring and Management	<p>To assess whether the Council’s key contracts are well managed to ensure compliance and achieve required outcomes.</p> <p>The contracts that will reviewed in 2018/19 are:</p> <ul style="list-style-type: none"> • Leisure services – <i>planned for 2017/18, not yet started</i> • Street Scene – <i>planned for 2017/18, not yet started</i> • ICT • Asset Maintenance <p><i>Where possible, this work will identify and assess the extent existing sources of assurance activity can be relied on.</i></p>	Financially self-sufficient	1
Corporate risk: Failure to ensure good governance of the Council’s activities and delivery of priority outcomes			
Officer Governance Group	To attend the Governance Group meetings and contribute to the development / improvement of governance processes.	Financially self-sufficient	2

Activity to be audited	Objective of work	Business Plan priority	Audit Priority
Key financial systems	<p>To assess whether the key controls in the key financial systems are adequately designed and effectively applied. This will cover;</p> <ul style="list-style-type: none"> - The Main Accounting System - Treasury Management (high level review, including changes to the Code of Practice & Prudential Code) - Creditors (high level review and follow up) <p><i>Any testing will focus only on key controls relating to significant income or expenditure streams.</i></p>	Maximise assets	1
Housing Benefit Subsidy	Review benefit cases selected by the external auditor to feed in to the external audit grants certification work.	Maximise assets	1
Planning Services	To assess whether there are effective processes and procedures to ensure planning applications are processed in required timescales, and review implementation of Affordable New Homes provisions.	Early intervention	2
Project Management	<p>To provide constructive challenge over governance and design of controls for new systems or processes.</p> <p>To assess the progress of projects in relation to agreed timescales, the robustness of project management, and the effectiveness of project activity in delivering outcomes.</p>	Financially self-sufficient	1
Service Provision to Other Local Authorities	To review the provision of payroll services and processing of election payments for other Local Authorities.	Financially self-sufficient	2
Elections Bank Account	Review of governance arrangements for the bank account.	Financially self-sufficient	2
Insurance	To assess the completeness of insured items, and compliance with insurer conditions (including relating to physical security).	Financially self-sufficient	1

Activity to be audited	Objective of work	Business Plan priority	Audit Priority
Cemetery Management	Overview of the provision and accuracy of data and management information.	Financially self-sufficient	2
Housing Allocations	Overview of Housing Allocations policy against legislative requirements.	Early intervention	2
Discretionary Housing Payments	Overview of arrangements for awarding payments	Early intervention	2
Abandoned Vehicle Contract	Overview of processes adopted prior to issue of instruction to contractor to remove vehicles.	Maximise assets	2
Risk Management	To review the existence and effectiveness of a sample of mitigating actions for key risks.	Maximise assets	1
Counter Fraud	<p>To deliver a programme of proactive counter fraud work and, where necessary, investigate any fraud referrals.</p> <p>To provide oversight of, and reports to the Audit Committee on whether the Accountable Officers for National Fraud Initiative data matches are taking appropriate and prompt action.</p> <p><i>This work is an oversight role only to ensure the Chief Audit Executive is aware of the extent and nature of matches to indicate any significant control issues and to gain assurance that any issues arising are being dealt with.</i></p>	Maximise assets	1
Corporate Risk: We fail to deliver the objectives of the Council's Business Plan in terms of measurable outcomes			
Business Resilience	To assess the risk associated with reliance on key individuals to achieve priorities, including succession planning, training and span of control.	Financially self-sufficient	1
Empty Properties	Overview of arrangements for bringing empty properties back into use, including provision of management information on empty properties	Maximise assets	1

Activity to be audited	Objective of work	Business Plan priority	Audit Priority
	returned to use and the New Homes Bonus.		
Corporate Risk: There is a failure of safeguarding arrangements			
No planned coverage in 2018/19 Safer Recruitment audit in 2017/18			
Corporate Risk: There is a serious Food or Health and Safety, Environmental or other incident for which the Council is culpable			
No planned coverage in 2018/19 Environment Health and Health and Safety audits in 2017/18			
Council held data is lost, disclosed or misused to detriment of individuals or organisations as result of inadequate protection			
General Data Protection Regulations	To assess the effectiveness of implementation of required actions, including relating to organisational awareness, data storage and retention, data classification and management and physical security. To consider the arrangements for recording and sharing details of individuals perceived as a threat.	Financially self-sufficient	1
Applications audits	To review a sample of IT applications to assess access controls, and controls relating to data input processing and output, and parameters	Financially self-sufficient	1

Activity to be audited	Objective of work	Business Plan priority	Audit Priority
Cyber Security	Non-technical overview to assess actions to raise awareness of risks and preparedness to withstand attack.	Financially self-sufficient	1
Investigation of critical information breaches	Independent investigation by Internal Audit where critical information security breaches occur.	Financially self sufficient	1
<i>Corporate Risk: We fail to respond to, or provide, relevant services in the event of an incident or disaster</i>			
Emergency Planning	Examination of arrangements in place for dealing with a disaster / major security incident impacting residents.	All priorities	2
No other planned coverage in 2018/19 (Business Continuity audited in 2016/17).			
<i>We fail to innovate and develop new ways of meeting customer needs and expectations</i>			
Disabled Facilities Grants	To review revised arrangements for assessing and awarding grants.	Enable communities	2
<i>Failure to produce and meet a balanced budget and MTFs that allow for the successful delivery of the Business Plan priorities or the Capital Programme</i>			
Budget Monitoring	To assess whether there are effective processes to set the budget and identify deliverable savings, and to monitor the budget.	Financially self-sufficient	1
<i>The inability to recruit, retain, develop and manage appropriately skilled staff to deliver the Council's priorities</i>			
Staff performance management and development	To assess whether there is a robust and consistently applied framework to manage staff performance and ensure staff receive required training.	Maximise assets	2
Workforce Strategy	To assess arrangements for reviewing skills gaps, alignment of HR with the organisational strategy, and absence management.	Maximise assets	2

Activity to be audited	Objective of work	Business Plan priority	Audit Priority
<i>Failure to enter into and manage effective partnerships for the delivery of services and outcomes</i>			
Partnerships and Alternative Delivery Models	To assess arrangements for governance and oversight of partnerships to include ensuring delivery of agreed outcomes.	Early intervention	1
<i>Community cohesion is impacted adversely by service changes or withdrawals</i>			
No planned coverage (See Business Resilience)			
<i>Failure to engage with stakeholders to understand and communicate what the Council should be trying to achieve</i>			
Economic Growth	To assess activity to support local economic growth, including access to funding, availability of key skills, availability of land and premises for growth, and actions to attract inward investment	Financially self-sufficient / Enable communities	2
<i>Other audit activity chargeable to the audit plan</i>			
Following up recommendations	We will follow up all Limited assurance reports, and all high and moderate recommendations to assess whether recommendations have been effectively implemented		1
Audit planning	To develop the 2019/20 audit plan		1
Reporting to Audit Committee	To write and agree the required reports to Audit Committee throughout 2018/19.		1
Audit management	To undertake required management activity including quality assurance and continuous improvement processes and to review and where necessary update the Audit Charter and Strategy.		1

Activity to be audited	Objective of work	Business Plan priority	Audit Priority
Annual Governance Statement (AGS) 2017/18	<ul style="list-style-type: none"> - To ensure the AGS covers all elements set out in best practice guidelines - Ensure assurances have been obtained to support the elements of the Governance Statement - To review evaluations of systems processes and documentation supporting development of the AGS - To confirm areas of improvement identified in the AGS have been adequately identified and have action plans in place with arrangements for monitoring progress 		1

INTERNAL AUDIT CHARTER

Purpose and mission

The purpose of Rochford District Council's internal audit function is to provide independent, objective assurance and consulting services designed to add value and improve the Council's operations. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The internal audit function helps Rochford District Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Standards for the Professional Practice of Internal Auditing

To ensure that authorities make arrangements for the proper administration of their financial affairs, the Accounts and Audit (England) Regulations 2015 make statutory provision for a local authority to undertake an adequate and effective internal audit of its documents and records and of its system of internal control in accordance with proper internal audit practices.

These 'proper internal audit practices' are the Public Sector Internal Audit Standards (PSIAS).

The objectives of the PSIAS are to:

- define the nature of internal auditing in the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the Council, leading to improved organisational processes and operations
- establish the basis for the evaluation of internal audit performance and to drive improvement planning

To meet the above objectives, the PSIAS requires the Council to have a documented and agreed Internal Audit Charter which in effect acts as the agreement between the Internal Audit service and the Council.

Definitions used

This Charter defines the following terminology contained within the PSIAS:

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- **the board** as the Audit Committee
 - **senior management** as the Leadership Team collectively and all Assistant Directors, the Section 151 Officer, the Strategic Director and the Managing Director individually

The **Chief Audit Executive** (CAE) is the person tasked with directly managing the Internal Audit function. This is currently an employee of another local authority engaged under a memorandum of understanding until 31 March 2020.

Authority

The CAE reports functionally to the Audit Committee and administratively (i.e. day-to-day operations) to the Assistant Director Democratic Services (ADDS).

To establish, maintain, and assure that internal audit has sufficient authority to fulfil its duties, the Audit Committee will:

- Approve the Internal Audit Charter.
- Approve the risk-based Internal Audit Plan.
- Receive communications from the CAE on internal audit's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the CAE to determine whether there is inappropriate scope or resource limitations.

Financial Regulations provide Internal Audit with the right of access at any reasonable time to all records, documents and correspondence relating to any transactions of the Council, and to require any employees of the Council to produce cash, stores or any other Council property under their control. Internal Audit can also request explanations, as considered necessary, to confirm the correctness of any matter under examination.

The CAE has the right to direct and unrestricted access (i.e. outside of line management) to, and freedom to report in their own name and without fear of favour, to the following:

- Managing Director and Strategic Director
- Section 151 Officer
- Monitoring Officer
- Any other member of The Leadership Team
- Chairman of the Audit Committee

Independence and objectivity

In order to preserve its objectivity and independence, Internal Audit will not assume operational responsibilities for, and will remain independent of, the activities it audits or reviews.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others. Auditors are required to have due regard to the standards expected within the “Seven Principles of Public Life”

Where the CAE has, or is expected to have, roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal Audit employees will ensure that they conduct work with due professional care and in line with the requirements of the PSIAS, having due regard to the Chartered Institute of Public Finance & Accountancy’s Local Government Application Note in this respect. Staff will also look to comply with the code of ethics for internal auditors and the core principles for internal audit.

In accordance with the Council’s Officer Code of Conduct internal auditors must declare interests that can impact on objectivity. Implications of the Bribery Act must be considered and auditors must not accept gifts, hospitality, inducements or other benefits other than those permitted by the Council’s Code, for which the appropriate registration of such items must be completed. Information obtained during the course of an audit engagement must not be used for personal gain by an Internal Auditor or made available to third parties unless specific authority is in place to do so.

To ensure objectivity, individual auditors will not be permitted to carry out audit work in areas where they have had operational responsibility within the same financial year or longer until a suitable period has elapsed as determined by the CAE and or the ADDS.

Subject to available operational resources, audit engagements will be rotated within the Internal Audit Team to prevent over-familiarity and complacency that could influence objectivity and effectiveness. Potential for conflicts of interest or impairment to objectivity or independence will be considered as part of pre-audit work and documented as part of that work.

Scope of Internal Audit activities

The scope of Internal Audit includes all of the Council’s operations, resources, services and responsibilities in relation to other bodies. Where agreements allow, this includes all contractors and other bodies commissioned to deliver services on behalf of the Council.

The CAE also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit function may perform advisory and related client service activities, the nature and scope of which will be agreed with the client.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Internal Audit may also provide consultancy services, such as advice and guidance on new design and implementation control, particularly through periods of organisational change. Consultancy services are advisory in nature and are generally performed at the specific request of the management, with the aim of improving governance, risk management and control and contributing to the annual audit opinion. During consultancy engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the Council, they will be communicated to senior management and the Audit Committee.

Any consultancy advice will be given without prejudice as to future coverage of, and opinion, on the relevant activity on which advice has been given.

Responsibility

The CAE is responsible for the preparation of a risk-based Annual Audit Plan and has overall responsibility for its management. The Audit Committee considers and approves (but does not direct) the proposed Annual Audit Plan. This means the Audit Committee can and should challenge whether the Plan is sufficient and adequately focused.

The CAE is responsible for ensuring that the resources available to internal audit are sufficient to meet its responsibilities and achieve its objectives. Resources can be either in-house staff or specialist external providers. If the CAE concludes resources are insufficient, he must formally report this to senior management and the Audit Committee.

Senior Management will review and comment on the Annual Audit Plan prior to it being presented to the Audit Committee for consideration and approval to ensure effective audit coverage of the key issues affecting their service areas.

Individual audit engagements will be undertaken in line with procedures maintained by Internal Audit to ensure consistency in structure and approach. The approach to testing must be appropriate and of sufficient size and intensity to draw valid conclusions. Working papers must be maintained to justify conclusions reached and enable another independent auditor to repeat the work and come to the same conclusion.

Where prior audit work has identified good controls and procedures and there have not been significant changes in those procedures or key personnel since the last engagement then the level of testing may be reduced, whilst ensuring the underlying controls are still in place.

In carrying out its duties Internal Audit will work constructively with management and staff. During the course of an engagement, management and staff are required to co-operate fully with the auditors.

If significant control failings are identified in testing, this fact will be referred to the CAE and brought to the attention of relevant management during the course of the engagement for immediate action.

All audit and consultancy outcomes will be fully discussed with operational management at the conclusion of an engagement. Management responses will be recorded and considered for the purposes of completing a final report of the engagement.

An Audit Report will be produced and presented to the relevant Assistant Director to obtain confirmation as to content and relevance. This will be done as soon as practicable after completion of field work. The report will contain recommendations to address any weaknesses in controls or procedures identified in the Audit Engagement. An action plan, confirmed by the relevant Assistant Director, with realistic dates for implementation will be agreed.

After the report and action plan, if applicable, has been agreed by the relevant Assistant Director, copies of the report will be issued for information to the Section 151 Officer, Directors and the relevant Portfolio Holder.

Management are responsible for responding formally to Internal Audit recommendations by either accepting and implementing the recommendations or formally reject them, explaining the reasons for so doing. If Internal Audit and management fail to reach agreement on issues or recommendations which Internal Audit consider to be of material importance, the final audit report will reflect the position of both and attention will be drawn specifically to these issues or recommendations in order that senior management and the Audit Committee may consider the options and give direction to an appropriate action.

For clarity, management, not Internal Audit, are responsible for establishing and maintaining a proper and effective control environment and for managing risk within their area of operations.

Internal audit's role in fraud, bribery and corruption

If evidence or suspicion of fraud, bribery or corruption is identified during the course of an engagement the matter will be reported immediately to the ADDS / CAE / S151 Officer as appropriate without further reference to line management, for consideration and timely progression in line with the Council's Anti-Fraud & Corruption Policy & Strategy.

If evidence of fraud, bribery or corruption is identified during the course of an engagement the matter will be reported to the Audit Committee. Such updates will be provided in a private and confidential session as allowed by the local government legislation and written in a manner which protects the integrity of action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud, bribery and corruption will be detected.

Line management bears primary responsibility for the prevention and detection of fraud, bribery and corruption. Internal Auditors will, however, be alert in all their work to risks and exposures that could allow fraud, bribery or corruption.

Quality assurance and improvement programme

Internal Audit will maintain a quality assurance and improvement programme that covers all aspects of internal audit activity. The programme will include an evaluation of the internal audit function's conformance with the PSIAS and an evaluation of whether internal auditors apply The Institute of Internal Auditors' Code of Ethics. The programme will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.

The CAE will communicate to senior management and the Audit Committee on the quality assurance and improvement programme, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

An external assessment of the Internal Audit service was conducted in January 2018, the results of which will be reported to the Audit Committee in May 2018, as part of the CAE's Annual Report.