
INTERNAL AUDIT PLAN AND CHARTER 2019/20

1 PURPOSE OF REPORT

- 1.1 To present the proposed 2019/20 Audit Plan and Charter to the Audit Committee for consideration and approval.
- 1.2 The Internal Audit Plan for 2019/20 (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 2019/20 based on an assessment of such risks. Delivery of plan 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 ANNUAL AUDIT PLAN AND CHARTER

3.1 Input from the Leadership Team was sought concerning inclusion of specific audit engagements. Other sources that have been utilised to inform the annual plan include:

- Corporate priorities and 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;
- 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);
- Sector Report on Challenges and Opportunities faced by the Public Sector;
- The Council's Local Code of Corporate Governance / Governance Assurance Framework;
- Horizon scanning to assess new risks and challenges; and
- Internal Audit's own knowledge and experience.

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 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.

3.4 The Audit Charter has been reviewed and is considered fit for purpose. The only changes in the attached document relate to the change in the reporting line for Internal Audit to Assistant Director, Resources / S!51 Officer, following the retirement of the Assistant Director, Democratic Services at the end of February 2019.

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 2019/20 Audit Plan, there is a risk the CAE will not be able to provide an annual opinion for 2019/20.

5 RESOURCE IMPLICATIONS

- 5.1 The audit team is now fully resourced. 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 2019/20.

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 An Equality Impact Assessment has been completed and found there to be no impacts (either positive or negative) on protected groups, as defined under the Equality Act 2010.

8 RECOMMENDATION

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

That the proposed Audit Plan and Charter for 2019/20 be approved.



Naomi Lucas

Section 151 Officer

Background Papers: -

None.

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

Internal Audit work needed in 2019/20 to provide an annual opinion

APPENDIX A

Activity to be audited	Objective of work	Business Plan priority	Audit Priority
<i>Corporate Risk 1: We fail to deliver the objectives of the Council’s Business Plan in terms of measurable outcomes</i>			
Business Continuity	To assess whether there are robust and comprehensive Business Continuity plans that have been tested to demonstrate their effectiveness.	Financially self-sufficient	1
Performance Management	To assess the arrangements for measuring performance against the Business Plan	All Priorities	1
Project Management	To provide constructive challenge over governance and design of controls for new systems or processes 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 Deferred from 2018/19 Annual Audit Plan	Financially self-sufficient	1
<i>Corporate Risk 2: There is a failure of safeguarding arrangements</i>			
No planned coverage for 2019/20			
<i>Corporate Risk 3a: There is a serious Food, Environmental or other incident for which the Council is culpable</i>			
Environmental Health Service	Follow-up of Audit work from 2017/18	Early Intervention	1
<i>Corporate Risk 3b: There is a serious Health and Safety incident for which the Council is culpable</i>			
Asset Management	Follow-up from Asset Management Audit of 2017/18 and Insurance Audit	Maximise our	1

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Activity to be audited	Objective of work	Business Plan priority	Audit Priority
	of 2018/19	assets	
Health and Safety	Follow-up from Health & Safety Audit of 2017/18 and Insurance Audit of 2018/19	Maximise our assets	1
Corporate Risk 4: We fail to respond to, or provide, relevant services in the event of an incident or disaster			
Emergency Planning	Examination of arrangements in place for dealing with a disaster / major security incident impacting residents	All priorities	2
Corporate Risk 5: Council held data is lost, disclosed or misused to detriment of individuals or organisations as result of inadequate protection			
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
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 in the event of a critical information security breach. (Contingent)	Financially self sufficient	1
Corporate Risk 7: Failure to engage with stakeholders to understand and communicate what the Council should be trying to achieve			
Social Media	See Risk 8, below		
Corporate Risk 8: We fail to innovate and develop new ways of meeting customer needs and expectations			
Well Homes Financial Assistance Grants	To review arrangements for assessing and awarding grants. Changes in procedures since last audit	Enable communities	1

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Activity to be audited	Objective of work	Business Plan priority	Audit Priority
Social Media	To assess whether there are effective controls in place to: <ul style="list-style-type: none"> • use social media effectively to help the council best communicate with the public and service users and promote and deliver council services • ensure social media activity is carried out in a professional, secure, and appropriate manner 	Enable communities	1
<i>Corporate Risk 9: 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>			
No planned coverage for 2019/20 Audit Report in 2018/19			
<i>Corporate Risk 10: The inability to recruit, retain, develop and manage appropriately skilled staff to deliver the Council's priorities</i>			
Business Resilience	To assess the risk associated with reliance on key individuals to achieve of priorities, including succession planning, training and span of control.	Financially Self-Sufficient	1
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
<i>Corporate Risk 11: 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>Corporate risk 12: The Council could fail to provide consistent Value for Money (VFM) across all services or obtain VFM in its procurement</i>			

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Activity to be audited	Objective of work	Business Plan priority	Audit Priority
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 2019/20 are:</p> <ul style="list-style-type: none"> • ICT Financial Management • Grounds Maintenance – GGT(GM) <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
Procuring goods & services	<p>To assess whether the requirements of Financial Regulations and Contract Procedure Rules are complied with for a sample of purchased goods and services across a range of values and service areas as a follow up to the 2017/18 and 2018/19 reviews.</p>	Financially self-sufficient	1
Vehicle fleet management	<p>To assess whether the Council effectively manages its fleet of vehicles in respect of maintenance and replacement management</p>	Maximise our assets	2
Corporate risk 13: Failure to ensure good governance of the Council's activities and delivery of priority outcomes			
Abandoned Vehicle Contract	<p>Overview of processes adopted prior to issue of instruction to contractor to remove vehicles</p>	Maximise assets	2
Annual Governance Statement (AGS) 2019/20	<p>Ensure the AGS covers all elements set out in best practice guidelines</p> <p>Ensure relevant assurances have been obtained to support the elements of the AGS</p> <p>Review evaluations of systems, processes and documentation supporting development of the AGS</p> <p>Confirm areas for improvement identified in the AGS have been adequately identified and have action plans in place with arrangements</p>	All Priorities	1

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Activity to be audited	Objective of work	Business Plan priority	Audit Priority
	for monitoring progress		
Counter Fraud Arrangements	To carry out an overview of the Council's counter-fraud arrangements Where necessary, investigate any fraud referrals	Maximise assets	1
Counter Fraud; National Fraud Initiative	To provide oversight of, and reports to Audit Committee on the progress in dealing with the 2019 National Fraud Initiative data match exercise <i>This work is an oversight role only to ensure the Chief Audit Executive is aware of the extent and nature of matches should it indicate any significant control issues and to gain assurance that any issues arising are being dealt with</i>	Maximise assets	1
Discretionary Housing Payments (DHP)	Overview of arrangements for awarding DHP	Early intervention	2
Elections Bank Account	Review of governance arrangements for the bank account	Financially self-sufficient	2
Homelessness Reduction	Review of procedures and outcomes	Early Intervention	1
Housing Allocations	Overview of Housing Allocations policy against legislative requirements	Early intervention	1
Housing Benefit Subsidy	Review benefit cases selected by the external auditor to feed in to the external audit grants certification work (New DWP worksheet for 2019/20)	Maximise assets	1
Key financial systems	To assess whether the key controls in the key financial systems are adequately designed and effectively applied. <ul style="list-style-type: none"> • Payroll • Debtors & Debtor Management • Cash & Banking • Council Tax 	Maximise assets	1

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Activity to be audited	Objective of work	Business Plan priority	Audit Priority
	<ul style="list-style-type: none"> Business Rates Testing will focus on key controls relating to significant income, expenditure or changes in underlying risks; personnel, systems etc.		
Planning & Regeneration - Services - Development Management	To assess whether there are effective processes and procedures to ensure planning applications processed in required timescales	Early intervention	1
Risk Management	To review the existence and effectiveness of a sample of mitigating actions for key risks	Maximise assets	1
Service Provision to Other Local Authorities	To review the provision of payroll services / processing election payments for other Local Authorities.	Financially self-sufficient	2
Corporate Risk 14: Failure to ensure the ICT Estate supports achievement of the Business Plan			
Critical Friend	Internal Audit will act as 'critical friend' regarding ICT developments to support the identification of risks and control measures to mitigate such risks. Further to this IA will seek available external assurance from relevant third parties about the Council's IT infrastructure/	Early Intervention	1
Corporate Risk 15: Failure to ensure compliance with the General Data Protection Regulations (GDPR) and unable to demonstrate consistent application of information standards, controls and statutory compliance			
GDPR	To follow-up on recommendations arising from Internal Audit work of 2018/19 and review ongoing compliance arrangements	Financially self-sufficient	1
Other audit activity chargeable to the audit plan			
Audit management	To undertake required management activity including quality assurance and continuous improvement processes. To review and, where		1

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Activity to be audited	Objective of work	Business Plan priority	Audit Priority
	necessary, update the Audit Charter and Strategy.		
Audit planning	To develop the 2020/21 audit plan		1
Following up recommendations	Where not included in Plan above, we will follow up High and Moderate recommendations to assess whether recommendations have been effectively implemented		1
Governance Group	To attend the Governance Group meetings and contribute to the development / improvement of governance processes		1
Investigations	To carry out investigations in conjunction with Human Resources as directed by the Leadership Team.		1
Reporting to Audit Committee	To prepare and present the required reports to Audit Committee throughout 2019/20		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:

- **the board** as the Audit Committee

- **senior management** as the Leadership Team collectively and all Assistant Directors, the Section 151 Officer, the Managing Director and the Strategic 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 Resources (ADR) / S151 Officer.

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 Annual 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
- Chair 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.

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 enough 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 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 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 both 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 an engagement the matter will be reported immediately to the ADR/ 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 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 result of which was reported to the Audit Committee in May 2018, as part of the CAE's Annual Report.