

## AUDIT AND RISK COMMITTEE

26 March 2019

### INTERNAL AUDIT PLAN 2019/20

#### Report of the Head of Internal Audit

Strategic Aim:	All	
Exempt Information	No	
Cabinet Member(s) Responsible:	Mr G Brown, Deputy Leader and Portfolio Holder for Planning, Environment, Property and Finance.	
Contact Officer(s):	Rachel Ashley-Caunt, Head of Internal Audit	Telephone: 07824 537900 email: RASHLEY-Caunt@rutland.gov.uk
Ward Councillors	N/A	

#### DECISION RECOMMENDATIONS

That the Committee:

1. review and approve the Internal Audit Plan for 2019/20 and the Internal Audit Charter.
2. give authority to the Strategic Director for Resources to make changes to the Audit Plan 2019/20 in consultation with the Chair of the Audit & Risk Committee.

#### 1 PURPOSE OF THE REPORT

- 1.1 To seek the Committee's approval of the Internal Audit Plan for 2019/20 and the Internal Audit Charter, in line with the Public Sector Internal Audit Standards.

#### 2 BACKGROUND AND MAIN CONSIDERATIONS

##### Audit Plan 2019/20

- 2.1 The Internal Audit Plan sets out the assignments that will be delivered by the Internal Audit team during the financial year. In accordance with the Public Sector Internal Audit Standards (PSIAS), the Audit Plan should be risk based and developed with input from senior management and the Audit Committee.
- 2.2 LGSS provides the Internal Audit service for Rutland County Council and is

commissioned to provide 360 days to deliver the Audit Plan in 2019/20.

- 2.3 Appendix A provides details on the process followed to develop the Internal Audit Plan for 2019/20 and a copy of the draft Plan is provided in Table 1.
- 2.4 At the January 2019 meeting, Members of the Audit and Risk Committee were invited to highlight any areas where assurance from Internal Audit is sought during 2019/20 for inclusion and prioritisation in the development of the Audit Plan. The areas raised by the Committee have been considered and risk assessed in the development of the Plan and assurances in the areas highlighted have been included in the Plan. The Plan will remain subject to ongoing review during the year and amendments to reflect any changes in the risk environment can be made accordingly.
- 2.5 To ensure that the Internal Audit activities are consistently focused upon the Council's key risks, the plan will remain subject to ongoing review by the Head of Internal Audit throughout the year and will be subject to regular consultation with senior management. To enable the Internal Audit team to be responsive and amend the planned activities to address any new or emerging risk areas as required, it is recommended that a mechanism be agreed to allow for changes to the Audit Plan between Audit and Risk Committee meetings. Any such amendments could be subject to formal approval by the Strategic Director for Resources and the Chair of the Audit and Risk Committee and would be reported at the subsequent Audit and Risk Committee meeting.

#### Internal Audit Charter

- 2.6 The Public Sector Internal Audit Standards (PSIAS), define the Internal Audit charter as 'a formal document that defines the internal audit activity's purpose, authority and responsibility. The Internal Audit charter establishes the Internal Audit activity's position within the organisation, including the nature of the chief audit executive's functional monitoring relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities'.
- 2.7 The Head of Internal Audit has undertaken an annual review of the Charter for the new financial year to confirm that this remains fit for purpose and compliant with good practice and the Public Sector Internal Audit Standards. No amendments have been made to the document or the audit approach following this review.

### **3 CONSULTATION**

- 3.1 No external consultation is required but, as noted above, senior management and the Audit and Risk Committee have been involved in developing audit proposals for 2019/20.

### **4 ALTERNATIVE OPTIONS**

- 4.1 Members are able to approve the plan as presented in Appendix A or approve it with amendments.

## **5 FINANCIAL IMPLICATIONS**

- 5.1 There are no financial implications arising from this report. The Audit Plan has been based upon the number of days commissioned by the Council on an annual basis. This has been reduced by ten days in 2019/20.

## **6 LEGAL AND GOVERNANCE CONSIDERATIONS**

- 6.1 The Audit and Risk Committee is responsible for oversight of the work of Internal Audit including approving the annual Audit Plan and satisfying itself that the conclusions reached in the annual audit report are reasonable in light of the work undertaken. It is also responsible for gaining assurance that the Internal Audit service is complying with Internal Audit Standards.
- 6.2 There are no legal implications arising from this report.

## **7 DATA PROTECTION IMPLICATIONS**

- 7.1 A Data Protection Impact Assessments (DPIA) has not been completed because there are no risks/issues to the rights and freedoms of natural persons.

## **8 EQUALITY IMPACT ASSESSMENT**

- 8.1 An Equality Impact Assessment (EqIA) has not been completed as there are no equality implications.

## **9 COMMUNITY SAFETY IMPLICATIONS**

- 9.1 There are no community safety implications.

## **10 HEALTH AND WELLBEING IMPLICATIONS**

- 10.1 There are no health and wellbeing implications.

## **11 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS**

- 11.1 The draft Internal Audit Plan for 2019/20 has been developed following a risk based approach, with input from Senior Management and the Audit and Risk Committee. The Plan is presented to the Audit and Risk Committee for final refinement and formal approval.
- 11.2 The Internal Audit Charter is presented to Members for annual review and approval, in accordance with the Public Sector Internal Audit Standards.

## **12 BACKGROUND PAPERS**

- 12.1 There are no additional background papers.

## **13 APPENDICES**

- 13.1 Appendix A: Internal Audit Plan 2019/20

13.2 Appendix B: Internal Audit Charter

**A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.**



**Internal Audit Plan  
2019/20  
RUTLAND COUNTY COUNCIL**



**Head of Internal Audit: Rachel Ashley-Caunt**

## **INTERNAL AUDIT PLAN 2019/20**

### **1. Introduction**

- 1.1 This report sets out the proposed work of Internal Audit at Rutland County Council for 2019/20 for review and approval by the Audit and Risk Committee.
- 1.2 Internal Audit provides independent assurance designed to add value and support the Council in achieving its priorities and objectives. To deliver this, Rutland County Council is commissioning 360 days for delivery of the Internal Audit service on an annual basis.
- 1.3 The provision of assurance services is the primary role for Internal Audit in the UK public sector. This role requires the Head of Internal Audit to provide an annual Internal Audit opinion based on an objective assessment of the framework of governance, risk management and control.
- 1.4 Internal Audit also provide consultancy services which are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion. Any proposed consultancy work is clearly specified as such on the Audit Plan.
- 1.5 In setting the annual Audit Plan, the Public Sector Internal Audit Standards require:
- The audit plan should be developed taking into account the organisation's risk management framework and based upon a risk assessment process undertaken with senior management and the Audit Committee;
  - The audit plan should be reviewed and approved by an effective and engaged Audit Committee to confirm that the plan addresses their assurance requirements for the year ahead; and
  - The Head of Internal Audit should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations.

### **2. The Audit Plan**

- 2.1 The Audit Plan covers the two key component roles of Internal Audit:
- The provision of an independent and objective opinion to the Section 151 Officer and the Audit and Risk Committee on the degree to which risk management, control and governance support the achievement of Council objectives; and
  - The provision of an independent and objective consultancy service specifically to help line management improve the organisation's risk management, control and governance arrangements.

- 2.2 At the centre of the organisation, is the core delivery of the Council's corporate objectives and corporate plan. The risk based audits are focused upon providing independent assurance over the controls in place to manage risks faced in achieving these objectives.
- 2.3 In order to protect the Council in delivering these objectives, it is essential that the Council's key corporate controls and policies are operating effectively to prevent the risk of financial loss, failure to comply with legislation, lack of accountability and reputational damage. These controls and policies range from key financial controls and systems to health and safety policies, from data management to procurement rules. These policies and controls must be complied with by all service areas to secure the Council's standing.
- 2.4 Further protecting and underpinning the Council's ongoing delivery of its objectives are robust counter fraud controls and good governance. Without these, the Council would be exposed to the risk of fraud and corruption (both internally and externally), uninformed or non-transparent decision making, loss of accountability and direction, poor risk management and failure to embed and demonstrate ethical behaviours and values.
- 2.5 As such, the Audit Plan is designed to deliver independent, objective assurance on each of these areas – which are vital to the successful delivery of the Council's objectives and services. See Exhibit 1.

Exhibit 1. Assurance areas



### **3 Value for money**

3.1 In addition to assurance over governance, risk management and controls, the Audit Plan should also provide assurance over the Council's delivery of value for money. Assurance over value for money is embedded within each audit assignment.

3.2 The National Audit Office<sup>1</sup> refers to the following three key requirements in relation to value for money, which will form areas of assurance in the risk based audits proposed for 2019/20, as applicable to the risk area:

- **Informed decision making**

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance;
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management;
- Reliable and timely financial reporting that supports the delivery of strategic priorities; and
- Managing risks effectively and maintaining a sound system of internal control.

- **Sustainable resource deployment**

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions;
- Managing and utilising assets effectively to support the delivery of strategic priorities; and
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

- **Working with partners and other third parties**

- Working with third parties effectively to deliver strategic priorities;
- Commissioning services effectively to support the delivery of strategic priorities; and
- Procuring supplies and services effectively to support the delivery of strategic priorities.

3.3 The proposed Audit Plan for 2019/20 will provide assurances over these key areas within the context of the assignments detailed.

3.4 Some of the corporate level audits will provide specific assurances in relation to the value for money requirements – the audit of compliance with procurement rules will provide assurance over the effective procurement of supplies and services, including when working with third parties.

---

<sup>1</sup> Auditor Guidance Note 3 Auditors' Work on Value for Money Arrangements (November 2015)

## **4 Planning Process**

4.1 In order to ensure that the Audit Plan for 2019/20 addresses the Council's key risks and adds value, the Head of Internal Audit has identified and prioritised the areas for coverage by:

- Reviewing the Council's Risk Registers and Corporate Plan;
- Undertaking an assurance mapping exercise against the risks identified to highlight any gaps in the assurance framework and identifying any other sources of assurance for each of the Council's key risks, which may reduce the added value of an Internal Audit review and where work could be aligned with other assurance providers;
- Identifying any areas of the Audit Universe (a list of potential areas for audit review across the Council) which have not been subject to Internal Audit review during the last four years;
- Workshop session and paper to the Audit and Risk Committee in January 2019 to agree the audit planning process and consult Members on any areas where assurance is sought; and
- Meeting with members of Senior Management Team to discuss key risks and emerging risk areas for the year ahead and any areas where Internal Audit support would be beneficial either in an assurance or consultancy role.

4.2 The process has also incorporated consideration of potential audits which can be undertaken by drawing upon similar emerging themes from the councils across LGSS.

4.3 Following this consultation and review, a Draft Internal Audit Plan has been compiled and is provided in Table 1.

4.4 In order to ensure the Audit Plan addresses the Council's key risks and that the service is able to respond to any in year changes to the organisation's business, risks, operations, programs or systems, it is vital that the content of the Plan be subject to ongoing review throughout the financial year. To enable the service to be responsive and ensure all audit resources are used effectively and add maximum value, it is recommended that arrangements be agreed to allow changes to the Plan to be made between Audit and Risk Committee meetings, involving consultation between the Head of Internal Audit, the S151 Officer and Chair of the Audit and Risk Committee.

## **5 Resources**

5.1 The audit assignments for all of the LGSS clients are delivered by a team of audit staff including a mix of highly regarded professional qualifications (including ACCA, CIPFA and IIA) and extensive experience in the public and private sector. Absences and resource gaps/vacancies can be filled by the wider LGSS team, providing the resilience and stability of a shared service.

5.2 Efforts are constantly made to ensure all clients benefit from the shared service arrangement. This includes achieving efficiencies in delivering assignments, sharing of knowledge and experience and opportunities to deliver cross-cutting reviews.

- 5.3 On an annual basis, the Head of Internal Audit completes a self-assessment of the Internal Audit service against the Public Sector Internal Audit Standards. In doing so, the Head of Internal Audit must consider whether the resource base and mix is adequate and would highlight to the S151 officer and Members if there were any concerns that the resources in place could not provide the required coverage to inform the annual Assurance Opinion.

**Table 1: Draft Internal Audit Plan 2019/20**

<b>Assurance Areas</b>	<b>Internal Audit Assignments (including assurances sought and basis for inclusion)</b>	<b>Audit days</b>	<b>Initial timing</b>	<b>Corporate Risk ref / source</b>
<b>Corporate Governance and Counter Fraud</b>	<b>Fraud Risk Register</b> To provide assurance over the effective management of the Council's fraud risks, including the robustness of the Fraud Risk Register. The review will include selecting a sample of areas from the register and assessing whether controls noted are working as intended and appropriate actions are being taken.	15	Q3	Fraud risk register
	<b>Contract Procedure Rule compliance</b> To provide annual assurance over compliance with the Council's procurement rules across the organisation. To review a sample of procurements for evidence of compliance and strengthening of controls following previous audit recommendations.	10	Q4	SR02
<b>Key Corporate Controls and Policies</b>	<b>Key Financial Controls - (cyclical coverage)</b> <ul style="list-style-type: none"> <li>• <b>Creditors</b></li> <li>• <b>Payroll</b></li> <li>• <b>Treasury Management</b></li> <li>• <b>Local Taxation</b></li> </ul>	55	Q3 & 4	SR02  Fraud risk register
	<b>IR35 compliance</b> To provide assurance over compliance with the revised legislation in regards to establishing the status of temporary staff to ensure correct taxation is applied.	10	Q1	Internal Audit assurance
<b>Corporate Objective: Sustainable growth</b>	<b>Highways contract management</b> To provide assurance over implementation of actions arising from the 2016/17 audit of the contract.	15	Q2	PL19
	<b>Waste management</b> To provide assurance over the efficient processing of waste and recycling and effective management of contracts in place for delivery of these services.	20	Q1	Fraud risk register
	<b>FixMyStreet</b> To provide assurance over improvements made to the system for reporting of faults by residents and ensuring outcomes are communicated effectively and consistently.	12	Q2	Audit committee request

Assurance Areas	Internal Audit Assignments (including assurances sought and basis for inclusion)	Audit days	Initial timing	Corporate Risk ref / source
Corporate Objective: Safeguarding, health and wellbeing	<b>Schools thematic audit</b> To provide assurance over management of key risks within schools – to be scoped with management.	12	Q3	SR04
	<b>Community safety &amp; CCTV</b> To provide assurance over compliance with regulations on use of CCTV and management of the Council's Community Safety services – including joint working, initiatives and management information.	14	Q3	SR10
	<b>Housing and homelessness</b> To provide assurance over the handling of applications and compliance with the Council's duties under the Homelessness Reduction Act.	15	Q2	Legislative changes
	<b>Disabled Facilities Grants (DFGs)</b> To provide assurance that processes operate effectively over the application/approval process and achieving value for money. To assist in informing the annual grant verification.	14	Q1	Internal Audit assurances
Corporate Objective: Sound financial and workforce planning	<b>Budgetary control</b> To provide assurance over the effective scrutiny and monitoring of budgets across the Council.	12	Q3	SR02
	<b>CIL/S106 monitoring</b> To provide assurance over the processes in place for the administration, collection and spending of CIL/s106 monies.	15	Q4	SR02
	<b>Licensing</b> To provide assurance over processes in place for a sample of licence types, ensuring policies are consistently and effectively applied.	15	Q1	Internal Audit assurances
Corporate Objective: Reaching our potential	<b>Customer Service Standards</b> To provide assurance over practice across selected areas of the Council and Customer Services (CST) – following the introduction of a revised version of customer service standards.	15	Q3	SR09
	<b>Compliments and Complaints Management</b> To provide assurance over the consistent recording, handling and reflection upon complaints and compliments received, following introduction of revised policy.	15	Q2	SR09
	<b>IT Audit</b> To provide assurance over key controls within the IT service – specific area of focus to be determined in consultation with management.	15	Q2	Internal Audit assurances
Other assurances	<b>Grant Claim Verifications</b> Including Changing Lives, Highways Maintenance Block, Integrated Transport Block, Pothole Action Fund and National Productivity Investment Fund allocations.	15	As req'd	

<b>Assurance Areas</b>	<b>Internal Audit Assignments (including assurances sought and basis for inclusion)</b>	<b>Audit days</b>	<b>Initial timing</b>	<b>Corporate Risk ref / source</b>
<b>Support to Rutland County Council</b>	Including support and reporting to Audit and Risk Committee, management support and engagement, ad-hoc advice and assistance, annual Internal Audit report, follow ups on audit recommendations and partnership working with external auditors.	33		
<b>Management &amp; development of delegated Internal Audit service</b>	Development and management of Internal Audit service in line with the Public Sector Internal Audit Standards, including annual standards assessment, continuous improvement, internal audit charter and manual, management, training and development of the team and performance reporting.	33		
<b>Total days</b>		360		

## Appendix B. Internal Audit Charter



### INTERNAL AUDIT CHARTER AND STRATEGY

#### 1. INTRODUCTION & CONTEXT

- 1.1 Rutland County Council's Internal Audit service is delivered by LGSS.
- 1.2 As austerity continues, the context for local government and for the overall governance, risk and control environment within which it operates is increasingly challenging. Efficiency and transformation programmes are fundamentally altering the nature and structure of the Council. Services have become increasingly sophisticated in their understanding of risk management and may accept greater levels of controlled risk in order to achieve their aims. This is accompanied by greater transparency and scrutiny of public expenditure and governance. This context will affect the overall governance, risk and control environment.
- 1.3 Internal Audit is required to maintain an Internal Audit Strategy and Charter. The core governance context for Internal Audit is summarised below:

The Accounts and Audit Regulations (2015) set out that:

A relevant authority must ensure that it has a sound system of internal control which:

- facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- ensures that the financial and operational management of the authority is effective; and
- includes effective arrangements for the management of risk.

And that:

A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

A relevant authority must, each financial year—

- (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and
- (b) prepare an annual governance statement

The Public Sector Internal Audit Standards (PSIAS) issued in April 2013 include the need for risk-based plans to be developed for internal audit and to receive input from management and the 'Board' (usually discharged by the Council's Audit and Risk Committee). The work of Internal Audit therefore derives directly from these responsibilities, including:

PSIAS : 2010 - "The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."

PSIAS : 2450 – "The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

1.4 The purpose of the audit strategy and charter is to put in place an approach that will enable Internal Audit to deliver a modern and effective service that:

- Meets the requirements of the Public Sector Internal Audit Standards and the Accounts and Audit Regulations;
- Ensures effective audit coverage and a mechanism to provide independent and objective overall assurance in particular to Councillors and management;
- Provides an independent Annual Opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control environment;
- Identifies the highest risk areas of the Council and allocates available internal audit resources accordingly;
- Adds value and supports senior management in providing effective control and identifying opportunities for improving value for money; and
- Supports the S151 officer in maintaining prudent financial stewardship for the Council

1.5 The following definitions apply throughout the Strategy and Charter:

- The Audit and Risk Committee – acts as the PSIAS defined Council 'Board'
- The LGSS Chief Internal Auditor – is the PSIAS defined 'Chief Audit Executive'. In practice, a number of the key roles and responsibilities will be delegated to the LGSS Head of Internal Audit, unless otherwise stated.
- Rutland County Council's Senior Management Team (SMT) – is the PSIAS defined 'senior management' team
- Internal Audit – is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic,

disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

- Assurance Services – an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the Council. Examples include financial, performance, compliance, system security and due diligence.
- Consulting Services – Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation’s governance, risk management and control processes without the internal auditor assuming management responsibility - examples include counsel, advice, facilitation and training.

## **2. STRATEGY & VISION**

2.1 Internal Audit will provide the public, Councillors and Council officers with confidence that Council operations are properly governed and controlled, risks are effectively managed and service delivery meets customer need. Where confidence is not possible the service will ensure that the implications and risks are understood to ensure proportionate action is taken. Internal Audit will be responsive to the Council’s needs and the risks to which the Council is exposed. The ‘Mission’ for Internal Audit is therefore:

‘To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight’

2.2. Internal Audit is not responsible for the control systems it audits. Responsibility for effective internal control rests with the management / executive of the Council. Directors and Heads of Service are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services and achieve approved objectives / policy.

2.3. LGSS Internal Audit will provide a robust high quality audit service that delivers honest, evidenced assurance, by:

- Focusing on what is important

Deploying its resources where there is most value aligned to the corporate objectives and priorities, the processes to facilitate these and the key risks to their achievement, whilst ensuring sufficient assurance to support the Annual Governance Statement.

- Being flexible and responsive to the needs of the Council

The Annual Plan will be reviewed quarterly enabling Audit resources to be redeployed as new risks emerge, with the agreement of senior management and the board.

- Being outward looking and forward focused

The service will be aware of national and local developments and of their potential impact on the Council's governance, risk management and control arrangements.

- Providing Assurance

There is value in providing assurance to senior managers and members that the arrangements they put in place are working effectively, and in helping managers to improve the systems and processes for which they are responsible.

- Balancing independent support and challenge

Avoiding a tone which blames, but being resolute in challenging for the wider benefit of the Council and residents.

- Having impact

Delivering work which has buy-in and which leads to sustained change.

- Enjoying a positive relationship with and being welcomed by the 'top table'

Identifying and sharing organisational issues and themes that are recognised and taken on board. Working constructively with management to support new developments.

- Strengthening the governance of the Council

Being ambassadors for and encouraging the Council towards best practice in order to maximise the chances of achieving its objectives, including the provision of consultancy and advice.

2.4 The Internal Audit Service maintains an ongoing and comprehensive understanding of:

- Local Government / Public Sector
- The Council and its community
- Professional Audit and Corporate Governance standards

2.5 All staff within the audit service hold a relevant professional qualification, part qualification or are actively studying towards a relevant qualification. All participate in continuing professional development, both in relation to specific audit skills e.g. contract audit, and softer skills e.g. communication skills.

### 3. AUTHORITY

3.1 In accordance with PSIAS, the Chief Internal Auditor has full responsibility for the operation and delivery of the Internal Audit function including the production and execution of the audit plan and subsequent audit activities. The annual audit plan

will be agreed in consultation with relevant officers, the Audit Committee, and the senior management team.

- 3.2 Internal Audit's authority is documented and defined within the Council's Constitution and Financial Regulations. Internal Audit's remit extends across the entire control environment of the Council.
- 3.3 The Head of Internal Audit for the Council will formally report into the s151 officer who is responsible for maintaining an adequate and effective internal audit service, in accordance with Section 6 of the Accounts and Audit Regulations 2011.
- 3.4 Internal Audit has unrestricted access to all Council and partner records and information (whether manual or computerised systems), officers, cash, stores and other property, it considers necessary to fulfil its responsibilities. Internal Audit may enter Council property and has unrestricted access to all locations and officers without prior notice if necessary.
- 3.5 All Council contracts and partnerships shall contain similar provision for Internal Audit to access records pertaining to the Councils business held by contractors or partners.
- 3.6 All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities.
- 3.7 The Audit Committee (as the Board) shall be informed of any restriction unduly placed on the scope of Internal Audit's activities which in the opinion of the Chief Internal Auditor prevent the proper discharge of IA functions.
- 3.8 The Chief Internal Auditor and individual audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.
- 3.9 To provide for independence the day to day management of the Internal Audit Service is undertaken by the Chief Internal Auditor/Head of Internal Audit who report to the Audit Committee. This accords with the Public Sector Internal Audit Standards which requires the Chief Internal Auditor to report to the very top of the organisation.
- 3.10 The Chief Internal Auditor has direct and unrestricted access to the Council's Chief Executive, Section 151 Officer, Directors, External Audit and Audit and Risk Committees at his/her discretion, including private meetings with the Chair of the Audit and Risk Committee.

#### **4. INDEPENDENCE & OBJECTIVITY**

- 4.1 Independence is essential to the effectiveness of the internal audit service; so it will remain free from interference in all regards. This shall include, but not be limited to, matters of audit selection, scope, procedure, frequency, timing or report content.
- 4.2 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being

examined. They will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

- 4.3 In addition to the ethical requirements of the various professional bodies, each auditor is required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest and declare any potential 'conflict of interest' on allocation of an audit. Any potential impairments to independence or objectivity will be declared prior to accepting any work.
- 4.4 Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, 'approve' procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgment. Where auditors have previously been involved in any of these activities or consultancy work they will be prohibited from auditing those areas for at least 2 years. Where appropriate, audits are rotated within the team to avoid over-familiarity and complacency.
- 4.5 The Chief Internal Auditor will confirm to the Audit and Risk Committee, at least annually, the organisational independence of the internal audit service.

## **5. HOW THE SERVICE WILL BE DELIVERED**

### **5.1 Audit Planning**

5.1.1 The audit plan guides the work of the service during the year. The planning principles are:

- Focusing assurance effort on the most important issues, the key obligations, outcomes and objectives, critical business processes and projects, and principal risks; pitching coverage therefore at both strategic and key operational aspects;
- Maintaining up to date awareness of the impact of the external and internal environment on control arrangements;
- Using a risk assessment methodology to determine priorities for audit coverage based as far as possible on management's view of risk in conjunction with other intelligence sources e.g. corporate risk register, audit risk scores;
- Taking account of dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs, but recognising in a resource constrained environment there will be situations when not all needs can be met which is where risk management is key;
- Being flexible so that the plan evolves through the year in response to emerging risks and issues;

- Providing for the delivery of key commitments, such as work done in support of the External Auditor thus reducing the external audit fee, and to deliver governance and antifraud responsibilities; and
- Including provision for responding to requests for assistance with special investigations, consultancy and other forms of advice from management and sources.

5.1.2 Annex A illustrates the Planning cycle and the processes through which individual assignments are undertaken, reports issued and opinions given.

5.1.3 The number of available audit days to the Internal Audit Service will be reviewed to be sufficient to enable the audit service to deliver the risk based plan in accordance with professional standards. This takes into account the fact that additional resource will be procured as and when necessary e.g. for technical IT audits, when significant resource is diverted through unplanned work. The focus on the high risk areas will reduce the overall coverage required.

5.1.4 In order to deliver the Annual Audit Plan at the required quality and professionalism we strive to ensure that the team has the required mix of skills and experience. The use of external experts e.g. IT auditors compared to employing or developing these expensive resources in house is constantly under review to ensure that the service delivers a high quality product at best value for money. Future recruitment will take into account the expertise and skills required to fill any gaps within the current service.

5.1.5 The breadth of coverage within the plan necessitates a wide range of high quality audit skills. The types of audit work undertaken include:

- Risk based system audit
- Compliance audit
- IT audit
- Procurement and contract management audit
- Project and programme audits
- Risk Management
- Fraud/investigation work
- Value for money audit
- Control self-assessment techniques
- Consultancy and advice

5.1.6 Internal Audit may procure external audit resource to enhance the service provision as necessary.

## 5.2 Internal Audit Annual Opinion

5.2.1 Each year the Chief Internal Auditor will provide a publicly reported opinion on the effectiveness of governance, risk and control, which also informs the Annual Governance Statement. This will be supported by reliable and relevant evidence gathered through all work undertaken by Internal Audit during the year.

### 5.3 Conduct of work

5.3.1 The principles of how we conduct our work are:

- Focusing on what is important to the Council and in the ultimate interests of the public;
- Striving continuously to foster buy-in and engagement with the audit process;
- Ensuring findings and facts reported are accurate and informed by a wide evidence base, including requesting information from ex-employees and other stakeholders where appropriate;
- Ensuring that risks identified in planning are followed through into audit work;
- Ensuring that the right skills and right approaches are in place for individual assignments;
- Suggesting actions that are pragmatic and proportionate to risk, tailored for the best result and take into account the culture, constraints and the cost of controls;
- Focusing as a rule on ensuring compliance with existing processes and systems and reducing bureaucracy rather than introducing new layers of control;
- Being resolute in challenging; taking account of views, escalating issues and holding our position when appropriate;
- Driving the audit process by agreeing deadlines, meeting these on our part, and escalating non-response promptly in order to complete our work; and
- Having high standards of behaviour at all times.

### 5.4 Reporting

5.4.1 The reports produced by the service are its key output. The reporting principles are:

- Providing balanced evidence-based reports which recognise both good practice and areas of weakness
- Reporting in a timely, brief, clear and professional manner
- Ensuring that reports clearly set out assurance opinions on the objectives/risks identified in planning work

- Always seeking management's response to reports so that the final report includes a commitment to action
- Sharing reports with senior management and members, identifying key themes and potential future risks so that our work has impact at the highest levels
- Sharing learning with the wider organisation with a view to encouraging best practice across the Council.

5.4.2 A written report will be prepared and issued following the conclusion of each internal audit engagement, including follow up audits; unless in the opinion of the Head of Internal Audit and Client lead a written report is unnecessary.

5.4.3 Each report will:

- Provide an evidenced opinion on the adequacy of the governance, risk and control processes;
- identify inadequately addressed risks and non-effective control processes;
- detail agreed actions including explanation for any corrective action that will not be implemented;
- provide management's response and timescale for corrective action
- provide management's explanations for any risks that will not be addressed
- Identify individuals responsible for implementing agreed actions

5.4.4 Senior Management shall ensure that agreed corrective actions are introduced.

5.4.5 All audits and follow ups receiving a weak or limited audit opinion will be highlighted to the senior management team, and the Audit Committee. Regular reports to the Audit Committee shall highlight each weak / limited report until controls have been restored to satisfactory levels at least.

5.4.6 To assist the manager/reader in easily identifying the areas that are well managed and the significance of areas of concern, actions, objectives and overall assurance opinions are categorised using three key elements as summarised below (and set out in detail at Annex B):

- a) Assess and test the CONTROL ENVIRONMENT,
- b) Test COMPLIANCE with those control systems, and
- c) Assess the ORGANISATIONAL IMPACT of the area being audited.

## 5.5 Actions / Recommendations

5.5.1 Actions are categorised dependent on the risk as follows:

Importance	What this means
<b>High</b>	Action is imperative to ensure that the objectives for the area under review are met
<b>Medium</b>	Requires actions to avoid exposure to significant risks in achieving objectives for the
<b>Low</b>	Action recommended to enhance control or improve operational efficiency

## 5.6 Follow up

5.6.1 All High and Medium priority actions are followed up in accordance with the agreed action implementation dates. Further follow ups are undertaken as required. The Internal Audit Service will review their role in this area with the aim of promoting the action owner to proactively inform Internal Audit and provide evidence when an action has been fully implemented to inform the follow up process. Such an approach emphasises the need for managers to deliver required improvements without prompting, reinforcing their accountabilities.

## 5.7 Quality Assurance

5.7.1 The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards;
- All Council Policies and Procedures;
- Professional standards and Code of Ethics required by auditor's respective professional bodies;
- Internal Audit Strategy, Charter and Audit Manual; and
- All relevant legislation.

5.7.2 The Chief Internal Auditor maintains an appropriate Quality Assurance Framework and reports on this annually. The framework includes:

5.7.3 An audit manual documenting methods of working;

- Supervision and review arrangements;
- Customer feedback arrangements;
- Quality Standards;

- Annual Internal review;
- Periodic external reviews;
- Performance measures, including:
  - Proportion of plan completed, including spread of areas covered
  - Proportion of agreed actions implemented
  - Proportion of Limited Assurance opinion reports that improve to at least satisfactory as at follow up
  - Productive/direct time as a % of total time
  - Customer satisfaction levels

5.7.4 The completion of every assignment shall be monitored against:

- end to end time
- days taken to complete
- time between key audit stages e.g. draft issue to final report issue
- customer satisfaction

5.7.5 The Audit and Risk Committee, Senior Management Team and the Section 151 Officer receive regular updates on audits completed, the assurance opinions and actions implemented. Weak and limited opinion reports and key actions not implemented are discussed in more detail as appropriate with SMT, the Section 151 Officer and / or the Audit Committee.

5.7.6 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of:

- ongoing performance monitoring;
- an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards;
- an external assessment at least once every five years by a suitably qualified, independent assessor;
- a programme of Continuous Professional Development (CPD) for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies;
- the Chief Internal Auditor holding a professional qualification (current Chief Internal Auditor is a member of CIMA) and being suitably experienced; and
- encouraging, and where appropriate acting on, Customer feedback.

## **6. AUDIT COMMITTEE OVERSIGHT**

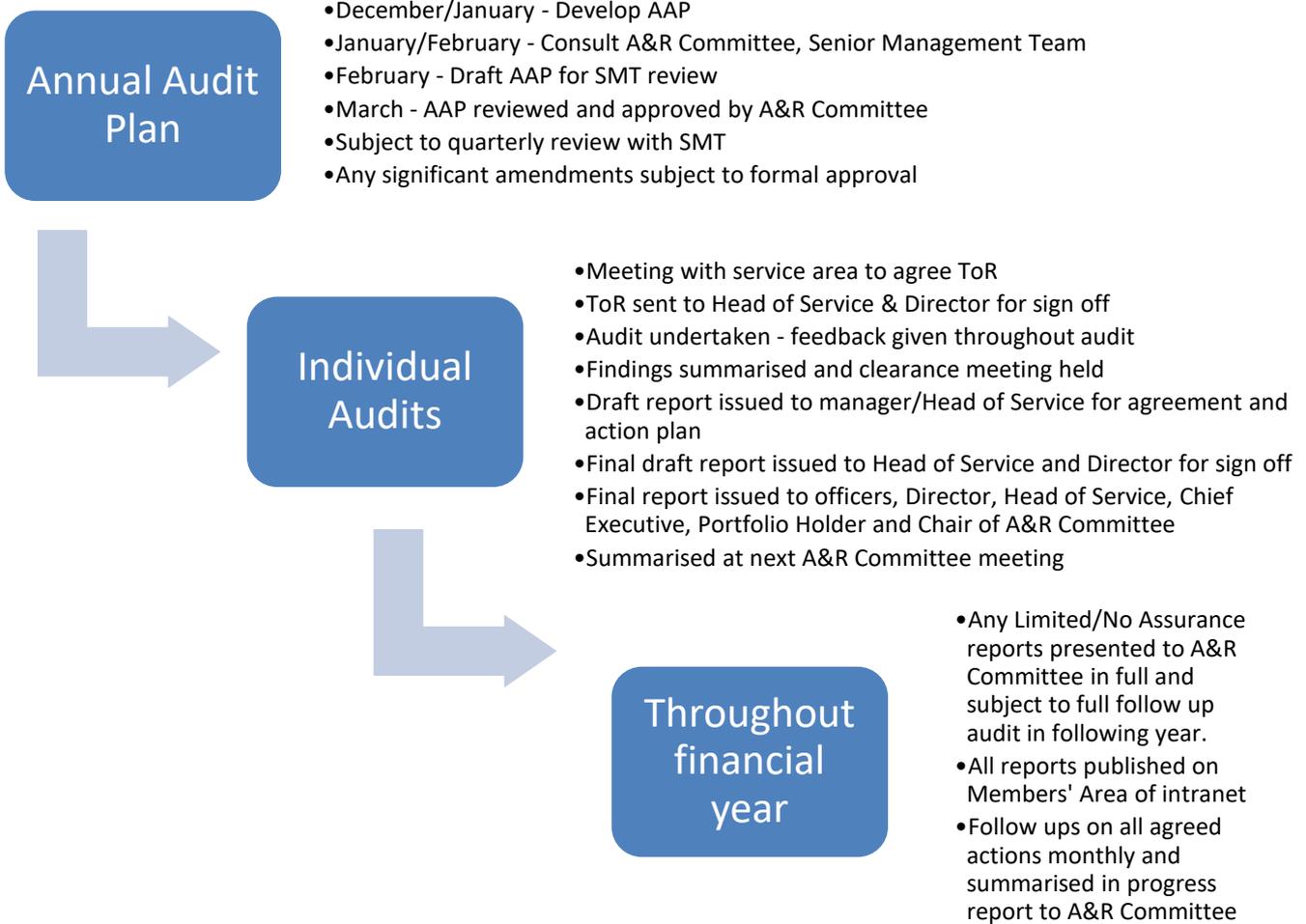
- 6.1 The Chief Internal Auditor/Head of Internal Audit will provide regular update reports to the Audit and Risk Committee to advise on the progress in completing the audit plan, the outcomes of each internal audit engagement, and any significant risk exposures and control issues identified during audit work.
- 6.2 The Chief Internal Auditor/Head of Internal Audit will also present an annual report giving an opinion on the overall adequacy and effectiveness of the control environment which will be timed to support the Council's Annual Governance Statement. In addition the Audit and Risk Committee will:
- approve any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken;
  - approve, but not direct, changes to the audit plan;
  - be informed of results from the quality assurance and improvement programme; and
  - be informed of any instances of non-conformance with the Public Sector Internal Audit Standards.

## **7. ANTI-FRAUD and ASSOCIATED ISSUES**

- 7.1 The Chief Internal Auditor will ensure that all work is undertaken and all staff are conversant with the Council's Anti-Fraud policies and culture, including:
- Anti-Fraud and Corruption policy
  - Whistleblowing policy
  - Anti-Money Laundering Policy
- 7.2 All Internal Audit staff will be alert to possibility of fraud during all work but are not responsible for identifying fraud.

## Annex A

### AUDIT PLANNING & DELIVERY PROCESSES



## Annex B

### INTERNAL CONTROL ASSESSMENT

<b>Control Environment Assurance</b>	
<b>Level</b>	<b>Definitions</b>
Substantial	There are minimal control weaknesses that present very low risk to the control environment
Good	There are minor control weaknesses that present low risk to the control environment
Satisfactory	There are some control weaknesses that present a medium risk to the control environment
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

<b>Compliance Assurance</b>	
<b>Level</b>	<b>Definitions</b>
Substantial	The control environment has substantially operated as intended and either no errors or some minor errors have been detected.
Good	The control environment has largely operated as intended although some errors have been detected.
Satisfactory	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

<b>Organisational Impact</b>	
<b>Level</b>	<b>Definitions</b>
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Where specific compliance reviews are undertaken e.g. grant certification, the following definitions are used to assess the level of compliance in each individual reviewed, albeit each certification usually requires the Chief Internal Auditor and Managing Director to formally certify compliance with grant conditions.

<b>Opinion for Compliance Audits – Levels of Compliance</b>	
<b>Level</b>	<b>Definitions</b>
High	There was significant compliance with agreed policy and/or procedure with only minor errors identified.
Medium	There was general compliance with the agreed policy and/or procedure. Although errors have been identified there are not considered to be material.
Low	There was limited compliance with agreed policy and/or procedure. The errors identified are placing system objectives at risk.

Individual audits are reported to relevant Head of Service, Director, the Chief Executive, Portfolio Holder and the Chair of the Audit and Risk Committee. Periodic summary reports are issued to the Audit and Risk Committee and any reports receiving an opinion of Limited Assurance or below are presented to the Committee in full.

An Annual Audit Opinion is then constructed based upon the years' work and formally reported to the Senior Management Team, the Audit and Risk committee and relevant stakeholders to inform the Annual Governance Statement and Accounts.