

## AUDIT AND RISK COMMITTEE

26 APRIL 2022

### INTERNAL AUDIT PLAN 22/23

#### Report of the Head of Internal Audit

|                                |   |   |
|--------------------------------|---|---|
| Strategic Aim:                 | All   |   |
| Exempt Information             | No  |   |
| Cabinet Member(s) Responsible: | Cllr K Payne, Portfolio Holder for Finance, Governance and Performance, Change and Transformation |   |
| Contact Officer(s):            | Rachel Ashley-Caunt, Chief Internal Auditor   | Tel: 07824 537900<br><a href="mailto:rashley-caunt@rutland.gov.uk">rashley-caunt@rutland.gov.uk</a> |
| Ward Councillors               | N/A   |   |

#### DECISION RECOMMENDATIONS

That the Committee:

1. Approves the proposed audit plan allocations for 2022/23 and the Internal Audit Charter and Strategy.
2. Approves delegated authority for the Strategic Director of Resources, in consultation with the Chair of the Audit and Risk Committee, to agree amendments to the plan during the financial year, if required.

## 1 PURPOSE OF THE REPORT

- 1.1 To provide Members with a proposed plan of Internal Audit work for the new financial year, and the Internal Audit Charter, for formal review and approval.

## 2 BACKGROUND AND MAIN CONSIDERATIONS

### Internal Audit Plan

- 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 & Risk Committee.

- 2.2 Appendix A provides details on the process followed to develop the Internal Audit Plan for 2022/23 and a copy of the draft plan is provided in Table 1.
- 2.3 At the November 2021 and February 2022 meetings, Members of the Audit and Risk Committee were invited to highlight any areas where assurance from Internal Audit is sought during 2022/23 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.
- 2.4 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 Chief Internal Auditor 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 - 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

- 2.5 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'.
- 2.6 The Chief Internal Auditor 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. Whilst no amendments have been proposed to the audit approach or strategy, the content of the document has been reviewed to ensure that it aligns with best practice and is presented in a clear format. Key amendments include the addition of an executive summary, inclusion of the Core Principles of Professional Practice and confirmation that all members of the Internal Audit service sign acceptance of the Internal Auditor's Code of Ethics on an annual basis.

### **3 CONSULTATION**

- 3.1 The Chief Internal Auditor has consulted with the s151 Officer and the Chair of the Audit & Risk Committee on key proposals within this report.

### **4 ALTERNATIVE OPTIONS**

- 4.1 The Committee may consider alternative priorities for inclusion on the plan.

### **5 FINANCIAL IMPLICATIONS**

5.1 There are no financial implications arising from this report. The Audit Plan will be based upon the number of days commissioned by the Council on an annual basis.

## **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 plan provides assurance over the Council's control framework and key risks. It is also responsible for gaining assurance that internal audit is complying with internal audit standards.

6.2 There are no legal implications arising from this report

## **7 DATA**

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 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 Audit Plan for 2022/23 was developed using a risk based approach, with input from senior management and the Audit and Risk Committee. The plan has been agreed with the s151 Officer and Chair of the Audit and Risk Committee pending formal committee approval. The Internal Audit Charter remains consistent with previous years and requires annual Committee approval, in line with the Public Sector Internal Audit Standards.

## **12 BACKGROUND PAPERS**

12.1 There are no additional background papers to the report

## **13 APPENDICES**

13.1 Appendix A: Internal Audit plan 2022/23

13.2 Appendix B: Internal Audit Charter

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

**Table 1: Internal Audit Plan 2022/23**

| Assurance Areas                                       | Internal Audit Assignments (including assurance sought)   | Risk ref / source                          | Audit days | Initial timing |
|---|---|--|------------|----------------|
| <b>Corporate governance and counter fraud</b>         | <b>Risk management</b><br>To provide support on maintenance of the Council's risk registers and quarterly testing on a sample of controls within the registers to inform real time assurances to the committee on the assumptions underpinning the risk scoring.  | Internal Audit assurances                  | 16         | Q1-4           |
|   | <b>Fraud risk register</b><br>To provide assurance over the management of the fraud risk register, including the identification and management of risks, and to review a sample of the risks identified to confirm that appropriate actions are being taken to mitigate risks and pro-actively prevent, detect and report attempted frauds. | Internal Audit assurances                  | 15         | Q2             |
|   | <b>Contract Procedure Rule Compliance</b><br>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.  | SR79                                       | 10         | Q4             |
| <b>Key corporate controls and policies</b>            | <b>Financial Systems</b> <ul style="list-style-type: none"> <li>• Debtors</li> <li>• Main accounting system</li> <li>• Housing benefits</li> </ul>  | Fraud risk register<br><br>s151 assurances | 45         | Q3/4           |
|   | <b>Treasury management</b><br>To provide assurance over the Council's compliance with the Treasury Management strategy and procedures.  | SR74                                       | 12         | Q3             |
|   | <b>Social care debt recovery</b><br>To provide assurance over the handling of social care debts owed to the Council to ensure effective and timely recovery of these monies, in line with approved policy.  | SR74                                       | 12         | Q2             |
|   | <b>IT asset management</b><br>To provide assurances over the effective management and recording of hardware issued to staff and Members, particularly following the issuing of high number of assets to facilitate home working.  | Internal Audit assurances                  | 12         | Q4             |
| <b>Corporate Objective: Protecting the vulnerable</b> | <b>Corporate parenting</b><br>To provide assurance over the understanding, and effective discharging, of corporate parent principles and responsibilities for children looked after by the Council (as set out in section 1 of the Children and Social Work Act 2017).  | SR04                                       | 15         | Q1             |
|   | <b>Children missing from care</b><br>To provide assurance over mechanisms for recording and tracking children missing from care, following recent focused Ofsted inspection activity.   | SR04                                       | 10         | Q3             |

| Assurance Areas  | Internal Audit Assignments (including assurance sought)   | Risk ref / source  | Audit days | Initial timing |
|--|---|--------------------|------------|----------------|
|  | <b>Adult social care reforms</b><br>To provide pro-active support and assurance over the design phase for implementation of the care cap and charging regimes arising from the reforms.   | SR05               | 15         | Q3             |
|  | <b>Readiness for CQC inspection regime</b><br>To provide real time assurances over the Council's readiness and preparation for the new inspection regimes, expected to be implemented from April 2023. To include a review of infrastructure and preparation in relation to data extraction and analysis. | SR05               | 12         | Q3             |
|  | <b>MiCare services</b><br>To review the processes applied and resilience of these services (including enablement, urgent response and 'safety net' services) and inform service development in this area.   | SR05               | 12         | Q1             |
| <b>Corporate Objective: Vibrant communities</b>                | <b>Safer recruitment in Schools</b><br>To provide assurance over controls exercised in the recruitment of staff at maintained schools. Local independent/academy schools will be invited to participate on a cost recovery basis.   | SR04               | 5          | Q1             |
|  | <b>Special educational needs and disabilities (SEND)</b><br>To provide assurance over compliance with expected timeframes for assessment and review of Education, Health and Care Plans. To include benchmarking against comparator authorities.  | SR76               | 12         | Q3             |
| <b>Corporate Objective: Delivering sustainable development</b> | <b>Waste contract</b><br>To engage with this key procurement process and provide ongoing, independent, real time audit support during 2022/23.  | SR79               | 17         | Q1-4           |
|  | <b>Highways maintenance contract</b><br>To follow up on effective embedding of improved controls, following implementation of audit recommendations from 2016/17 audit work. To provide assurance that this contract is being managed robustly.   | SR79               | 15         | Q3             |
| <b>Corporate Objective: Customer focussed services</b>         | <b>Home to school transport</b><br>To provide assurance over the commissioning of home to school transport provision in order to maximise value for money, whilst also ensuring due diligence in relation to safeguarding checks and controls.  | SR78               | 15         | Q2             |
|  | <b>Taxi licensing</b><br>To provide assurance over the consistent compliance with key controls in the awarding of taxi/private hire licenses – including safeguarding and right to work checks on drivers and operators.  | SR78               | 14         | Q2             |
| <b>Other Assurances</b>  | <b>Grant claim verification</b><br>Changing Lives, Pot Hole Grant, Bus Service Operator Grant etc.  | Grant requirements | 25         | As req'd       |
|  | <b>Grants – counter fraud support</b>   | Grant requirements | 5          | As req'd       |

**Table 2: Reserve list**

| Area of assurance                        | Comments – reason for lower risk/priority for coverage and plan for seeking assurances   |
|--|--|
| Performance management                   | Considered lower risk than other cross cutting reviews i.e. fraud risk register and note that an element of performance management relating to specific services is covered in relevant audit work. Include on reserve list for 2022/23 and audit planning for 2023/24.  |
| Covid-19 grant monies                    | Given the external scrutiny already in place from government, assessed as lower risk. Include on reserve list for 2022/23.   |
| Street works co-ordination               | There is an intention to move to a permit scheme which may make a review of current controls less valuable from an assurance perspective – making this more suited to consultancy work. Consultancy support could be commissioned during the year if considered of value.  |
| Reactive Highways Maintenance            | Potential to seek assurances as part of the Highways Maintenance contract audit – rather than an additional specific audit at this point.  |
| Highways Transport Working Group         | Proposed scope would be more suited to consultancy work which was assessed as lower priority than the assurance work proposed for inclusion. Consultancy support could be commissioned during the year if considered of value.   |
| Grounds maintenance                      | Given re-procurement of this contract is underway, there may be greater value in postponing to 2023/24.  |
| Children’s services development planning | Assurances to be sought outside the audit plan on the governance arrangements. With the audit plan, targeted assurances sought on issues arising – i.e. children missing from care audit.  |
| Care assessments                         | Adult Social Care have a plan of priorities for 2022/23 which includes the new Care assessment, this was the result of extensive review work. Timescales for the new assessment introduction are not confirmed but in order to audit their effectiveness and compliance, there will need to be a period of embedding and application prior to testing. No specific risks have been flagged by management requiring prioritisation of audit in this area and assurances to be sought regarding preparing for CQC inspection regime, including prevention work, in 2022/23. Proposed to include this in 2023/24 audit planning for testing of new processes. |
| Equalities, diversity and inclusion      | Incorporate in planning for 2023/24 to provide opportunity for embedding of policies and controls.   |



Internal Audit  
Charter & Strategy

## Executive summary

The Internal Audit Charter defines the purpose, authority and responsibility of Rutland County Council's Internal Audit service. It establishes the scope of the Internal Audit service and outlines how the service complies with statutory requirements and professional standards.

The key principles of Rutland County Council's Internal Audit service are as follows:

- Internal Audit provides an Annual Internal Audit Opinion based on an objective and comprehensive assessment of the Council's framework of governance, risk management and control.
- Internal Audit provides advice and consultancy services with the aim of adding value and improving organisational governance, risk management and control.
- All the Council's activities fall within the scope of Internal Audit, and the Internal Audit service has a complete right of access to all records and property held by Rutland County Council and to all officers of the Council.
- Internal Audit operates in compliance with Public Sector Internal Audit Standards (PSIAS) and the Chartered Institute of Internal Auditors' Code of Ethics.
- Internal Audit is independent and may report directly to the Chief Executive and the Chair of the Audit & Risk Committee. Regular reporting on audit activity is provided to the Section 151 Officer, Senior Management Team and the Audit & Risk Committee.
- Internal Audit team consists of qualified and part-qualified professionals in assurance and accounting. The service is committed to professional development and continuous quality assurance and improvement.
- Internal Audit staff have a professional duty to operate in ethical way; be honest; and demonstrate integrity at all times, working in line with the Council's Code of Conduct.
- The Internal Audit Charter is regularly reviewed and approved annually by the Audit & Risk Committee and senior management.

**1 PURPOSE, MISSION STATEMENT AND DEFINITION****Purpose of the Charter and Strategy**

1.1 The purpose of this Internal Audit Charter is to define Internal Audit's purpose, authority and responsibility. It establishes the Internal Audit activity's position within the Council and reporting lines; authorises access to records, personnel and physical property relevant to the performance of audit work; and defines the scope of Internal Audit activities. The Charter and Strategy should enable Internal Audit to deliver a modern and effective service that:

- Meets the requirements of the Public Sector Internal Audit Standards (PSIAS) 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

**Internal Audit Mission Statement**

1.2 The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

**Definition of Internal Audit**

1.3 Internal auditing 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.

## 2 CONTEXT

- 2.1 The Council's Internal Audit service is delegated to North Northamptonshire Council's Internal Audit service, led by the Chief Internal Auditor.
- 2.2 The core governance context for Internal Audit is summarised as follows:

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

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

*(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;*

*(b) ensures that the financial and operational management of the authority is effective; and*

*(c) 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—*

*conduct a review of the effectiveness of the system of internal control required by regulation 3; and prepare an annual governance statement.*

**The Public Sector Internal Audit Standards (PSIAS)** issued in 2017 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 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 organisations framework of governance, risk management and control".*

2.3 The following definitions have been applied to the PSIAS terminology throughout this document:

| Terminology                           | Definition for Rutland County Council  |
|---------------------------------------|--|
| 'Board', as per PSIAS                 | The Audit & Risk Committee   |
| 'Chief Audit Executive', as per PSIAS | The Chief Internal Auditor   |
| 'Senior management'                   | Senior Management Team   |
| '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.  |
| 'Consultancy 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 organisations governance, risk management and control processes without the Internal Auditor assuming management responsibility. Such examples would include advice, facilitation and training. |

### 3 STRATEGY

- 3.1 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.
- 3.2 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.
- 3.3 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.
  - **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.
  - **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.

- 3.4 The Internal Audit Service maintains an ongoing and comprehensive understanding of:
- Local Government / Public Sector issues;
  - The Council and its community; and
  - Professional Audit and Corporate Governance standards.
- 3.5 All staff within the Internal 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.
- 3.6 The mandatory core principles for the Professional Practice of Internal Auditing underpin the way in which the service is delivered and are embedded in ways of working, as detailed in this Charter. The principles ensure Internal Audit:
- Demonstrates integrity;
  - Demonstrates competence and due professional care;
  - Is objective and free from undue influence (independent);
  - Aligns with the strategies, objectives, and risks of the organisation;
  - Is appropriately positioned and adequately resourced;
  - Demonstrates quality and continuous improvement;
  - Communicates effectively;
  - Provides risk-based assurance;
  - Is insightful, proactive, and future-focused; and
  - Promotes organisational improvement.

**4 AUTHORITY**

- 4.1 In accordance with the 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 & Risk Committee, and the senior management team.
- 4.2 Internal Audit's remit extends across the entire control environment of the Council.
- 4.3 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.
- 4.4 All Council contracts and partnerships shall contain similar provision for Internal Audit to access records pertaining to the Council's business held by contractors or partners.
- 4.5 All employees are required to assist the Internal Audit activity in fulfilling its roles and responsibilities.
- 4.6 The Audit & Risk 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 Internal Audit functions.
- 4.7 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.
- 4.8 To provide for independence, the day to day management of the Internal Audit Service is undertaken by the Chief Internal Auditor who reports to the Audit & Risk 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.
- 4.9 The Chief Internal Auditor has direct and unrestricted access to the Council's Chief Executive, Section 151 Officer, Directors, External Audit and Audit & Risk Committee at their discretion, including private meetings with the Chair of the Audit & Risk Committee.

**5 ETHICS, INDEPENDENCE & OBJECTIVITY**

- 5.1 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.
- 5.2 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.
- 5.3 Internal Audit are commissioned to provide Risk Management support. Responsibility for implementing risk management activity is retained by the relevant officers at the Council, and the role of Internal Audit is to provide advice, support and facilitation for this process rather than to undertake risk management activity directly. Internal Audit reviews of risk management focus on actual risk management activity undertaken by management, not the facilitation work of the Internal Audit team, thus avoiding potential conflicts of interest. This ensures that there is no impairment to Internal Audit's independence and objectivity, as well as ensuring that Internal Auditors have a high degree of familiarity with the principles of risk management within the organisation to inform their assurance work.
- 5.4 The Internal Audit service also assists with counter fraud work for the Council. Internal Audit lead on investigating whistleblowing referrals relating to fraud and corruption, and financial impropriety.
- 5.5 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.
- 5.6 Internal Auditors also sign acceptance of the Internal Auditor's Code of Ethics on an annual basis.
- 5.7 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 two years. Where appropriate, audits are rotated within the team to avoid over-familiarity and complacency.
- 5.8 The Chief Internal Auditor will confirm to the Audit & Risk Committee, at least annually, the organisational independence of the Internal Audit service.

## 6 HOW THE SERVICE WILL BE DELIVERED

### Audit Planning

6.1 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.

6.2 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.

6.3 In order to deliver the Annual Audit Plan at the required quality and professionalism, Internal Audit 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.

6.4 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
- Fraud/investigation work
- Consultancy and advice

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

### **Internal Audit Annual Opinion**

- 6.6 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.

### **Conduct of work**

- 6.7 The principles of how the Internal Audit work is conducted are:
- Focusing on what is important to the Council and in the ultimate interests of the public;
  - Ensuring that risks identified in planning are followed through into audit work;
  - Agreeing the scope, objectives and any limitations of audit coverage at the outset of every assignment;
  - Ensuring that the right skills and right approaches are in place for individual assignments;
  - 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 other stakeholders where appropriate;
  - Informing management of key findings at the earliest, appropriate opportunity;
  - 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/expected processes and systems and reducing bureaucracy rather than introducing additional, unnecessary layers of control;
  - Being resolute in challenging; taking account of views, escalating issues and holding position when appropriate;
  - Driving the audit process by agreeing, and delivering to, deadlines and escalating non-response promptly in order to complete assignments; and
  - Maintaining high standards of behaviour at all times.

### **Reporting**

- 6.8 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 audit work has impact at the highest levels; and
  - Sharing learning with the wider organisation with a view to encouraging best practice across the Council.

6.9 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 Chief Internal Auditor a written report is unnecessary.

6.10 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; and
- Identify individuals responsible for implementing agreed actions.

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

6.12 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.

6.13 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 A):

- 1) Assess and test the **control environment**;
- 2) Test **compliance** with those control systems; and
- 3) Assess the **organisational impact** of the area being audited.

### **Actions / Recommendations**

6.14 Actions are categorised dependent on the risk as follows:

| Category      | Definition   |
|---------------|--|
| <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 area |
| <b>Low</b>    | Action recommended to enhance control or improve operational efficiency                      |

### **Follow up**

6.15 All High and Medium actions are followed up in accordance with the agreed action

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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.

### Quality Assurance

6.16 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 (PSIAS);
- Professional standards and Code of Ethics required by auditor's respective professional bodies;
- Internal Audit Strategy, Charter and Audit Manual; and
- All relevant legislation.

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

- 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 audit plan completed
  - Productive/direct time as a % of total time
  - Customer satisfaction levels

6.18 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

6.19 The Audit & Risk Committee, senior management 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 management, the Section 151 Officer and / or the Audit & Risk Committee.

6.20 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of its 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 (PSIAS);

- 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 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 CIPFA) and being suitably experienced; and
- encouraging, and where appropriate acting upon, customer feedback.

## **7 AUDIT & RISK COMMITTEE OVERSIGHT**

- 7.1 The Chief Internal Auditor will provide regular update reports to the Audit & 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.
- 7.2 The Chief Internal Auditor will also provide 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 & 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.

## **8 ANTI-FRAUD AND ASSOCIATED ISSUES**

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

## Annex A

**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 with no notable errors detected.   |
| Good                        | The control environment has largely operated as intended although some errors have been detected. |
| Satisfactory                | The control environment has partially 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 organisation as a whole |
| 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 as a whole   |
| 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 Chief Executive 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.                      |