

AUDIT AND RISK COMMITTEE

26 April 2016

INTERNAL AUDIT PLAN 2016/17

Report of the Head of Internal Audit

Strategic Aim:	All	
Exempt Information	No	
Cabinet Member(s) Responsible:	Councillor Terry King – Portfolio holder for Places (Development and Economy) and Resources	
Contact Officer(s):	Rachel Ashley-Caunt, Head of Internal Audit	Tel: 07824 537900 rashley-caunt@rutland.gcsx.gov.uk
Ward Councillors	N/A	

DECISION RECOMMENDATIONS

1. That Members review and approve the Internal Audit Plan for 2016/17.
2. That Members give authority to the Assistant Director – Finance to make changes to the Audit Plan 2016/17 in consultation with the Chair of the Audit & Risk Committee.
3. That Members review and approve the Internal Audit Charter.

1 PURPOSE OF THE REPORT

- 1.1 To seek the Committee's approval of the Internal Audit Plan for 2016/17 and the Internal Audit Charter, in line with the Public Sector Internal Audit Standards.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 Internal Audit Plan

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 The Welland Internal Audit Consortium provides the Internal Audit service for Rutland County Council and is commissioned to provide 370 days to deliver the

Audit Plan.

2.3 Appendix A provides details on the process followed to develop the Internal Audit Plan for 2016/17 and a copy of the draft Plan is provided in Table 1.

2.4 At the January 2016 meeting, Members of the Audit and Risk Committee were invited to highlight any areas where assurance from Internal Audit is sought during 2016/17 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 all have been included with the exception of Blue Badge fraud which was assessed as lower risk than the other assignments at this time. 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 Assistant Director - Finance and the Chair of the Audit and Risk Committee and would be reported at the subsequent Audit and Risk Committee meeting.

2.6 **Internal Audit Charter**

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 the Welland Internal Audit Consortium 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 material changes have been made to the document or the audit approach following this review. The only minor changes proposed are:

- To include a mission statement for the Internal Audit service – 'to enhance and protect Rutland County Council's organisational value by providing risk-based and objective assurance, advice and insight'; and
- To amend the reference to the Audit Manager discharging some of the responsibilities of the chief audit executive, to reflect that these will usually be undertaken by the Head of Internal Audit but can be undertaken by the Audit Manager if required.

2.8 A copy of the updated Charter is provided in Appendix B. All proposed amendments are shown as tracked changes.

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 2016/17.

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.

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 EQUALITY IMPACT ASSESSMENT

- 7.1 There are no equality implications.

8 COMMUNITY SAFETY IMPLICATIONS

- 8.1 There are no community safety implications.

9 HEALTH AND WELLBEING IMPLICATIONS

- 9.1 There are no health and wellbeing implications.

10 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

- 10.1 The draft Internal Audit Plan for 2016/17 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.
- 10.2 The Internal Audit Charter is presented to Members for review and approval.

11 BACKGROUND PAPERS

- 11.1 There are no additional background papers to the report.

12 APPENDICES

12.1 Appendix A: Draft Internal Audit Plan 2016/17

12.2 Appendix B: Internal Audit Charter

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

Appendix A: Internal Audit Plan 2016/17



Internal Audit Plan

2016 / 17

RUTLAND COUNTY COUNCIL

Head of Internal Audit: Rachel Ashley-Caunt

INTERNAL AUDIT PLAN 2016/17

1. Introduction

- 1.1 This report sets out the proposed work of Internal Audit at Rutland County Council for 2016/17 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 commissions 370 days from the Welland Internal Audit Consortium 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.
- 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. Accepted engagements must be included in the plan.

2. The Audit Plan

- 2.1 The Audit Plan is designed to support the provision of the annual Head of Internal Audit Opinion. The basis for forming this opinion is as follows:
- An assessment of the design and operation of the underpinning Governance, Assurance and Risk Frameworks and supporting processes; and
 - An assessment of the range of individual opinions arising from the risk based assignments, which will be reported throughout the year.
- 2.2 Other Sources of Assurance

In forming this opinion, the Head of Internal Audit can also consider other appropriate sources of assurance available. Other independent assurance

providers also produce reports that provide assurance over key service areas and risks. These may include external bodies such as OFSTED, external audit, Care Quality Commission, peer reviews, Information Commissioner's Office, RIPA compliance inspections and HMRC. Furthermore, there are internal sources of assurance provided by senior management including quarterly finance and performance reporting.

As such, in developing the Audit Plan, any other potential sources of assurance in relation to the identified risks have been considered and work will be aligned with these other assurance providers to ensure the Internal Audit resource is focused upon areas where value can be added and the use of all assurances is maximised.

3. Planning Process

2.3 In order to ensure that the Audit Plan for 2016/17 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 objectives;
- Analysing coverage of Internal Audit reviews over the last four years and the assurance opinions provided following each review, to identify any assurance gaps or areas where follow up work would be of value;
- 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;
- Consultation with the Audit and Risk Committee at the January 2016 meeting to discuss the planning process and areas where Members require assurances from Internal Audit during 2016/17; and
- Meetings with each member 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.

2.4 The process has also incorporated consideration of potential audits which can be undertaken by drawing upon similar emerging themes from the Councils within the Welland Internal Audit Consortium.

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

2.6 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.

2.7 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 the Chair of the Committee.

3 Resources

3.1 The Welland Internal Audit Consortium provides the Internal Audit function for five local authorities (Corby Borough Council, Harborough District Council, East Northamptonshire Council, Melton Borough Council and Rutland County Council).

3.2 Since August 2014, the Head of Internal Audit has been provided by LGSS (Local Government Shared Services) under a management arrangement with the Consortium. This provides the Consortium with additional resilience and the benefit of shared practice and experience from the wider LGSS client base. This arrangement is formally agreed until 31st March 2017.

3.3 The audit assignments for all of the Welland authorities 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. In the last twelve months the Consortium has established a Trainee Auditor post to develop and train new audit staff and a new trainee joined the team on 4th April 2016. One existing member of the team is also due to undertake final stage exams in 2016 for the Institute of Internal Auditors (IIA).

3.4 Absences and resource gaps/vacancies are currently filled by buying in external resources, mostly through the Consortium's connections with LGSS. The current vacancies will be reviewed during 2016/17 and the most cost effective and reliable option for filling these will be discussed with the Consortium Board.

3.5 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.

3.6 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 2016/17

Assurance Area	Audit Assignment and Potential Coverage	Proposed days	Planned Quarter	Strategic Risk Ref
Finance	Key Financial Controls:			
	Debtors	14	3 or 4	
	Creditors	14	3 or 4	
	Payroll	15	3 or 4	
	Main Accounting	12	3 or 4	
	Local Taxation	15	3 or 4	
	Benefits	15	3 or 4	
	Financial System upgrade:			
	<u>Consultancy support in design phase</u> - to ensure controls are suitably enforced in new system, changes to access rights are appropriate and identify potential flaws before sign off.	15	As required	
	<u>Systems Administration</u> - to provide assurance over the administration of the Agresso system following the upgrade.	12	3	Risk 11
Counter Fraud	Council Tax and NDR Fraud To provide assurance that effective and proportionate controls are operating to prevent and detect Council Tax and NDR Fraud and that these are being consistently applied.	12	3	Risk 11
Service Delivery	Highways Maintenance Contract To provide assurance over the effective management of this key, £3 million contract. Potential to undertake an open book review, if possible.	20	1	Risk 11
	Fostering Service To provide assurance over the controls in place to support the robust management of the Council's fostering service including payments to foster carers and compliance with good practice and relevant legislation.	15	2	Risk 4
	Contract Procedure Rules (CPR) compliance To provide assurance over compliance with the Council's procurement rules across the organisation through sample testing	10	3	Risk 11
	Taxi Licensing To provide assurance that licences are granted to applicants that satisfy the relevant conditions and in accordance with Council policy and procedures.	15	1	Risk 4 Risk 11

Assurance Area	Audit Assignment and Potential Coverage	Proposed days	Planned Quarter	Strategic Risk Ref
Service Delivery	Section 106 Agreements To provide assurance over the controls in place for collection of income, legal agreements, monitoring of existing agreements and clawbacks.	15	2	Risk 7
	Safeguarding Policies and Procedures and Compliance To provide assurance that controls are being exercised consistently and in accordance with Council procedures, including case audits, escalation processes and awareness of safeguarding procedures.	20	3	Risk 4 Risk 5
	Development Control To provide assurance over compliance with statutory requirements, regulations and best practice, timely collection of fee income and that planning applications are suitably processed and evaluated.	15	2	Risk 7
	Data Management To provide assurance over the Council's procedures and controls to ensure data is held and disposed of securely and in compliance with the Data Protection Act.	15	2	Risk 11
	LiquidLogic To provide assurance over the new social care system including its administration and to conduct a post implementation review of the project.	15	TBA	Risk 4 Risk 5
	Digital Broadband To continue to provide embedded assurance support to the Digital Rutland programme and provide assurance over the project management arrangements and milestone to cash process.	5	1	Risk 11
	Limited Assurance Reports There were a number of audits in 2015/16 which resulted in 'Limited' opinions. In all cases action plans were agreed to resolve issues raised. This review will report on the updated status of those action plans.	12	4	Risk 11
IT	Asset Management To provide assurance over the Council's management of its IT assets, including maintaining full and accurate records, recovering assets from leavers and monitoring use of software licenses.	12	3	Risk 11
	Policies and Procedures To review new and revised IT policies to ensure all key policies are in place, fit for purpose, communicated and compliant with good practice.	10	4	Risk 11 Risk 3

Assurance Area	Audit Assignment and Potential Coverage	Proposed days	Planned Quarter	Strategic Risk Ref
Support	Support to Rutland County Council - to include Committee meeting preparation and attendance, Committee liaison and development, senior management support and engagement, Annual Report, work with External Auditors, queries and ad-hoc support, support on National Fraud Initiative and Annual Governance Statement, strategic management, development of the annual Audit Plan.	33	-	
	Management of the Welland Internal Audit Consortium – to include Joint Committee work and attendance, Consortium Board reporting and attendance, development and training of the Internal Audit team, staff supervision and appraisals, budget monitoring.	34	-	
	Total Days Commissioned	370		

Appendix B: Internal Audit Charter



Internal Audit Charter

Purpose

This Charter formally defines the purpose, mission, authority and responsibility of the Welland Internal Audit Consortium (the Consortium) within Rutland County Council and outlines the scope of the Consortium's internal audit work.

The Audit Charter complies with the mandatory requirements of the Public Sector Internal Audit Standards (The Standards).

Definitions

The Standards set out the requirements of a 'Board' and of 'senior management'. For the purposes of the internal audit activity within Rutland County Council, the role of the Board within the Standards is taken by the Council's Audit & Risk Committee and senior management is the Council's Senior Management Team

Role

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2011, which state:

6.—(1) A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

Also, The Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In Rutland County Council, the Assistant Director - Finance is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an 'adequate and effective internal audit service'.

Internal Audit is defined by the Public Sector Internal Audit Standards as:

'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.'

Mission

The Welland Internal Audit Consortium's mission is to enhance and protect Rutland County Council's organisational value by providing risk-based and objective assurance, advice and insight.

Professionalism

The Consortium will govern itself by adherence to the mandatory guidance published by Chartered Institute of Public Finance Accountants (CIPFA) and the Chartered Institute of Internal Auditors' (IIA) including the Definition of Internal Auditing, the Code of Ethics, and the Public Sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing within the public sector and for evaluating the effectiveness of the Consortium's performance.

The IIA's Practice Advisories, Practice Guides, and Position Papers and any corresponding publications from CIPFA will also be adhered to as applicable to guide operations.

In addition, the Consortium will adhere to Rutland County Council's relevant policies and procedures and the Internal Audit Manual.

Authority

The Consortium's Auditors, with strict accountability for confidentiality and safeguarding records and information, are authorised full, free, and unrestricted access to any and all of the Council's records, physical properties, and personnel pertinent to carrying out any assignment.

All employees are requested and required to assist the Consortium in fulfilling its roles and responsibilities. This is enforced in the Accounts and Audit (England) Regulations 2011 section 6(2) which state that:

- 'Any officer or member of a relevant body must, if the body requires:*
- (a) make available such documents and records as appear to that body to be necessary for the purposes of the audit; and*
 - (b) supply the body with such information and explanation as that body considers necessary for that purpose'.*

For the purposes of internal audit activity, the Consortium's Audit Managers will also have free and unrestricted access to the Council's Strategic Management Team and Audit & Risk Committee.

Organisation

The Head of Consortium reports functionally to the Audit & Risk Committee on items such as:

- Approving the Internal Audit Charter;
- Approving the risk-based Internal Audit Annual Plan;
- The Consortium's performance against the Plan and other matters;
- Approving the Head of Consortium's Annual Report;
- Approving the review of the effectiveness of the system of Internal Audit.

The Head of Consortium has direct access to the Chair of Audit & Risk Committee and has the opportunity to meet with the Audit & Risk Committee in private.

The Council's Section 151 Officer will be Client Officer for the Consortium with responsibility for monitoring performance; ensuring adequacy of Internal Audit resources; and ensuring the Head of Consortium's independence. Responsibility for line management of the Head of Consortium is vested in the Section 151 Officer of the Consortium's employing organisation – Rutland County Council.

The Welland Internal Audit Board – comprising the clients' Section 151 Officers - is responsible for oversight of the Consortium's performance in delivering the agreed level and quality of service commissioned by individual clients.

Independence, integrity and objectivity

In respect of its internal audit activities, the Consortium will remain free from interference by any element in the Council, including matters of audit selection, scope, procedures, frequency, timing, or report content, to permit maintenance of a necessary independent and objective mental attitude.

Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair an Auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments. To achieve that outcome, the Head of Consortium will ensure that, where an Auditor is recruited from a client local authority, they will not audit the area that they moved from for at least a period of one year. Auditors will also be required to state any possible conflicts of interest at the start of each audit assignment to their manager to ensure a completely independent and unbiased audit is carried out.

The Head of Consortium will confirm to the Audit & Risk Committee, at least annually, the organisational independence of the Consortium in respect of all internal audit activity.

Responsibility

The scope of internal audit encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council's governance, risk management, and internal control processes in relation to the Council's defined goals and objectives.

The Consortium is responsible for evaluating all processes (not just financial) of the Council including governance and risk management processes. It also assists the Audit & Risk Committee in evaluating the quality of performance of external auditors and ensures that there is a proper degree of co-ordination between the Consortium and the Council's External Auditors.

The Consortium may perform consulting and advisory services related to governance, risk management and control as appropriate for the Council. Approval must be sought from the Audit & Risk Committee for any significant additional consulting services not already

included in the Annual Internal Audit Plan. The Consortium may also evaluate specific operations at the request of the Audit & Risk Committee or management, as appropriate: where requests from management have the potential to impact on the delivery of planned work, approval of the Audit & Risk will be required.

Based on its activity, the Consortium is responsible for reporting significant risk exposures and control issues identified to the Audit & Risk Committee and to senior management, including fraud risks, governance issues, and other matters requested by the Audit & Risk Committee.

Internal audit plan and resources

The Head of Consortium will submit to the Audit & Risk Committee, annually, a risk-based Internal Audit Annual Plan for review and approval. The report to Committee will include budget and resource requirements for the next financial year necessary for the delivery of the Plan. The Head of Consortium will communicate the impact of resource limitations and of significant interim changes to senior management and the Audit & Risk Committee.

The Internal Audit Annual Plan will be developed using a risk-based process that has been approved by the Audit & Risk Committee. The process will include input of senior management and the Audit & Risk Committee. Any significant deviation from the approved Internal Audit Annual Plan will be communicated through the periodic activity reporting process.

The Head of Consortium will carry out a continuous review of the development and training needs of all of the Consortium's personnel as part of the Consortium's Quality Assurance and Improvement Programme, and will arrange appropriate training.

Reporting and monitoring

A written report will be prepared and issued by the Head of Consortium or designee following the conclusion of each audit assignment and will be distributed in line with the Council's reporting processes. The outcome of each assignment will also be communicated to the Audit & Risk Committee in the manner determined by the Committee.

The Internal Audit reports will include management's response and a record of corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response will include a timetable for anticipated completion of agreed action to be taken and an explanation for decision not to take action to address a control weakness identified in the report.

The Consortium will be responsible for monitoring the timely implementation of agreed audit recommendations and will report to the Council's Senior Management Team and the Audit & Risk Committee on progress achieved.

The Head of Consortium will produce an annual Internal Audit Opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control. The Head of Consortium Opinion will contribute to the Council's review of the effectiveness of its control environment as required under the Accounts and Audit (England) Regulations 2011.

Periodic assessment

The Head of Consortium is responsible also for providing a periodic self-assessment on the Internal Audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

In addition, the Head of Consortium will communicate to senior management and the Audit & Risk Committee on the Consortium's Quality Assurance and Improvement Program, including results of on-going internal assessments and external assessments conducted at least every five years as required by the Standards.

Approval

The Head of Consortium will be responsible for the annual review of the Charter for subsequent approval by the Council's Audit & Risk Committee.

Approved by Audit and Risk Committee: 26th April 2016

Next review and approval due: April 2017