

READING BOROUGH COUNCIL

REPORT BY INTERIM DIRECTOR OF FINANCE

| | | | |
|------------------|------------------------------|--------------|--|
| TO: | AUDIT & GOVERNANCE COMMITTEE | | |
| DATE: | 25 January 2018 | AGENDA ITEM: | 6 |
| TITLE: | INTERNAL AUDIT PLAN 2018-19 | | |
| LEAD COUNCILLOR: | COUNCILLOR STEVENS | PORTFOLIO: | FINANCE |
| SERVICE: | FINANCE | WARDS: | N/A |
| LEAD OFFICER: | PAUL HARRINGTON | TEL: | 79390695 |
| JOB TITLE: | Chief Auditor | E-MAIL: | Paul.Harrington@reading.gov.uk |

1. EXECUTIVE SUMMARY

- 1.1 This report sets out the work Internal Audit plans to undertake during the financial year 2018/2019. The annual audit plan is designed to implement the internal audit strategy.
- 1.2 Accompanying the audit plan is the internal audit charter which sets out the purpose, authority, responsibility and scope of internal audit.
- 1.3 The following document is attached to this report:
 - Internal audit indicative plan 2018/2019 (appendix 1)
 - Internal audit charter (appendix 2)

2. RECOMMENDED ACTION

- 2.1 That the Audit & Governance Committee approves the audit plan for the period April 2018 to March 2019 and notes the content of the Internal Audit Charter.

3. INTERNAL AUDIT PLAN

- 3.1 It is internal audit's responsibility to form opinions about the risks and controls identified by management and annually to give a formal opinion on the control environment. In the context of the Public Sector Internal Audit Standards, 'opinion' does not simply mean 'view', 'comment' or 'observation'; it means that internal audit will have done sufficient, evidenced work to form a supportable conclusion about the Council's activities that we have examined. The attached audit plan will allow for the effective discharge of this responsibility.

- 3.2 In preparing the plan I have taken account of the adequacy and outcomes of the Council's risk management, performance management and other assurance processes. I have consulted with stakeholders, such as Directors and Heads of Service, the Head of Finance and the Council's external auditors.
- 3.3 The audit plan is fixed for a period of one year; however it must at the same time be fluid, kept under continuous review and amended to take into account emerging risks and areas where assurance work is required to be provided. Any significant changes will be reported back to the Audit & Governance Committee.
- 3.4 CMT and the Audit and Governance Committee will also be advised of performance against the audit plan and be kept informed of the results of those audit reviews undertaken.
- 3.5 The plan may be subject to changes, between now and the start of the new financial year, if new risks emerge which require internal audit focus.

4. AUDIT CHARTER

- 4.1 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.
- 4.2 The Public Sector Internal Audit Standards (PSIAS) require an Internal Audit Charter to be in place which will be reviewed periodically and presented annually to the Corporate Governance and Audit Committee for approval.
- 4.3 The main objective of Internal Audit is to provide a high quality, independent audit service to the Council which provides annual assurance in relation to internal control and overall governance arrangements.
- 4.4 The PSIAS recognises that Internal Audit's remit extends to the entire control environment of the organisation and not just financial controls.

4. CONTRIBUTION TO STRATEGIC AIMS

- 4.1 Audit Services aims to assist in the achievement of the strategic aims of the Council set out in the Corporate Plan by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In particular audit work is likely to contribute to the priority of remaining financially sustainable to deliver our service priorities.

5. COMMUNITY ENGAGEMENT AND INFORMATION

- 5.1 N/A

6. LEGAL IMPLICATIONS

- 6.1 Legislation dictates the objectives and purpose of the internal audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation.
- 6.2 Section 151 of the Local Government act 1972 requires every local authority to “make arrangements for the proper administration of its financial affairs” and to ensure that one of the officers has responsibility for the administration of those affairs.
- 6.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations in that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices”.

7. FINANCIAL IMPLICATIONS

- 7.1 N/A

8. BACKGROUND PAPERS

- 8.1 N/A

Appendix 1

Indicative Internal Audit Plan

(2018/2019)



www.reading.gov.uk



Reading
Borough Council
Working better with you

Internal Audit Plan

1. Background

- 1.1 The definition of internal audit is set out in the Public Sector Internal Audit Standards (PSIAS): *"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."*
- 1.2 Internal audit contributes to the Council achieving its key priorities by helping to promote a secure and robust internal control environment, which enables a focus on achieving the key priorities.
- 1.3 Internal audit also supports the Director of Resources in discharging his/her statutory duties. The following are two key pieces of legislation that internal audit supports the Director of Resources to comply with:
 - i. Section 151 of the Local Government Act 1972. The Director of Resources, as the council's Section 151 Officer, is responsible under the Local Government Act for ensuring that there are arrangements in place for the proper administration of the authority's financial affairs. The work of internal audit is an important source of information for the Director of in exercising his/her responsibility for financial administration.
 - ii. The Accounts and Audit Regulations state that 'A relevant authority must undertake an effective internal audit¹ to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. The work of internal audit provides a substantial element of this requirement.
- 1.4 'Effective internal audit' is defined by the Department for Communities and Local Government as compliance with the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note for the PSIAS.
- 1.5 The PSIAS set out the standards for internal audit and include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the 'Board'. Within the Council, the Audit & Governance Committee fulfils the key duties of the Board laid out in the PSIAS. This document sets out the proposed plan for 2018-19.

2. The Planning Process

- 2.1 The overall purpose of the Internal Audit work plan is to provide the framework for the use of audit resources and a yardstick for measuring audit performance.
- 2.2 The PSIAS Performance Standard 2010 - Planning states that: '*The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.*' Within Reading Borough Council (RBC), the role of Chief Audit Executive is undertaken by the Chief Auditor.
- 2.3 The standards refer to the need for the risk-based plan to take into account the requirement to produce an annual internal audit opinion and report that is 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. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work. There also needs to be a balance between breadth (taking a broad look at governance and risk management) and depth (drilling down into specific areas where internal audit can provide valuable insight.)
- 2.4 In line with the PSIAS the proposed audit plan has been devised adopting a risk based approach. The information which has been used to prepare our risk assessment and proposed internal audit plan has been collected and collated from a number of different sources. The starting point for a risk based audit approach is an understanding of the Council's objectives and risks. This has been achieved by reviewing the Council's Strategic risk register, Corporate Plan and minutes of officer and Council meetings. Directors and Heads of Service were consulted for areas to be included in the audit plan and our own knowledge and experience of Council services was also used to inform our subsequent risk assessment. This information is used to inform and design the audit plan.

3. The Internal Audit Plan

- 3.1 The outputs from the planning process have been prioritised to produce a plan that balances the following:
- the requirement to give an objective and evidenced based opinion on aspects of governance, risk management and internal control;
 - the time required for anti-fraud and corruption activity
 - the requirement for internal audit to add value through improving controls, streamlining processes and supporting corporate priorities;
 - the need to retain a contingency element to remain responsive to emerging risks; and
 - the resource and skill mix available to undertake the work.

- 3.2 Whilst Internal Audit will adopt a risk based approach to determine relative risk, there will remain areas where a purely cyclical approach will still be required, i.e. the audit of schools.
- 3.3 The Chief Auditor in liaison with the Director of Resources (sec 151 Officer) will keep progress against the audit plan, and the content of the plan itself under review. The Corporate Management Team and the Audit and Governance Committee will also be advised of performance against the Audit Pan and be kept informed of the audits undertaken.
- 3.4 The indicative Internal Audit programme for 2018-2019 has been prepared in line with the PSIAS. A risk-based approach has been used to prioritise internal audit work and ensure there is sufficient coverage and internal audit resource to provide an evidence-based assurance opinion that concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 3.5 The plan is responsive in nature and all efforts will be made to maximise coverage to provide the most effective and agile internal audit service possible that focuses on those key risks facing the organisation throughout the year.

4. Resources

- 4.1 The audit plan needs to be deliverable within available resources and the achievement of the audit plan is based on the assumption that the current internal audit structure will remain essentially unaltered and intact throughout the year. Resource requirements are reviewed each year as part of the audit planning process and are discussed with the sec 151 officer.

5. Individual Audits

- 5.1 When we scope each review, we will reconsider our estimate for the number of days needed to achieve the objectives established for the work and to complete it to a satisfactory standard. Where revisions are required we will obtain approval from the appropriate Corporate Director prior to commencing fieldwork.
- 5.2 In determining the timing of our individual audits we will seek to agree a date which is convenient and ensures the availability of key management and staff.
- 5.3 All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement. Any key (serious) issues arising during the course of the audit review will be promptly reported to the Chief Auditor to determine impact on the scope of the review. Key issues will also be promptly brought to management's attention during the course of the review to enable appropriate remedial action to be taken prior to being formally published in the audit report.

- 5.4 The auditor will draft a report and arrange to meet with management, to ensure factual accuracy of the audit observations and findings and to ensure a proper understanding of the risks to which any action plan relates. These meetings should take place in accordance with dates agreed in the terms of reference or within two weeks of completion of the audit fieldwork, whichever is the sooner.
- 5.5 Management will be required to provide a response to the action plans. Any areas of disagreement between the auditor and management, regarding audit's observations and/or the auditor's assessment of current risk exposure, which cannot be resolved by discussion, will be recorded in the action plans.
- 5.6 Following discussion of the draft report the auditor will draft a clear, concise and constructive report, following a standard format, outlining:
- the overall level of assurance opinion, based on the auditor's professional judgement of the effectiveness of the framework of internal control, risk management and governance;
 - audit recommendations, along with management response and implementation date
 - an executive summary of the key findings and conclusions
 - Details of findings, to include an explanation of the risk and the identified control weaknesses.
 - The final report will be issued in the name of the auditor conducting the review and the Chief Auditor.

6. Follow up Reviews

- 6.1 Whether or not an audit review is scheduled for a follow up is reliant on the assurance opinion given at the time of the audit. Where significant gaps in the control environment have been identified then the audit will be subject to a follow up. The timing of the follow up is very much dependent on available resources, but our aim to complete the follow up within six to twelve months of completion of the audit.

7. Reports to C.M.T. and the Audit & Governance Committee

- 7.1 A status report on internal audit work will be presented to CMT and the Audit and Governance Committee on a quarterly basis (approximately). The purpose of these reports is to provide an update on the progress made against the delivery of the Internal Audit Plan. The report will provide details of audits completed to date, the assurance opinions given and the number and type of recommendations made. The report will also provide a summary of internal audit performance, planning and resourcing issues.

8. Annual Assurance Report

8.1 A formal annual report to the Audit & Governance Committee and CMT, presenting the Chief Auditor's opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, will be published to enable it to be taken into account within the annual review of the effectiveness of the system of internal audit and in preparing the Corporate Annual Governance Statement. The format of the Chief Auditor's report will follow that set out in the Public Sectors Standards for Internal Audit and will include:

- an opinion on the overall adequacy and effectiveness of the Council's framework of internal control, risk management and governance;
- disclose any qualifications to that opinion, together with the reasons for qualification;
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- any issues considered by the Chief Auditor to be particularly relevant to the Annual Governance Statement;
- A comparison of work undertaken with that planned, with a summary of internal audit performance for the year; and
- Comment on compliance with the Public Sector Standards on Internal Audit and internal audit's quality assurance programme.

CORE COUNCIL

Governance

| Audit Title | Scope of Audit Work | Q1 | Q2 | Q3 | Q4 |
|--|---|----|----|----|----|
| Corporate Governance Overview | Review of ownership, completeness and currency of documentation the Council is required to hold, publicise and periodically review setting out its governance arrangements. As part of this review we will follow up actions in the Council's Annual Governance Statement (AGS) and facilitate and review the completion of directorate self assessments | | | ● | |
| Employee gifts and hospitality & declarations of interests | The public is entitled to expect the highest standards of conduct from all employees who work for local government. The 'Code of Conduct for Employees' require employees to register any gifts or hospitality/declarations of interest, in order to provide openness and transparency and protection for employees against any allegations of conflicts of interest or corruption in the minds of the public. This review will seek to determine the level of compliance with the code through contacting a selection of key services to see if any gifts or hospitality have been declared and whether declarations of interest have been provided. | | | | ● |
| GDPR | Readiness (given May 2018 and £20m fines). Retention policies applied to email and unstructured data and Information Asset Owners - Privacy Impact Assessments undertaken routinely, SIRO, Calidcott Guardian, Data protection officer, IT Security all trained and performing roles, Data Protection Training and awareness of GDPR specific changes especially in higher risk areas of Social Services (Adults, Children's), Education, Child Care Legal, HR and Payroll, Legal, Finance. | ● | | | |

HR

| | | | | | |
|--------------------------------------|---|---|--|--|--|
| Pay parity/recruitment and retention | Review the systems and process followed which govern honorarium & additional payments. Do the processes followed to make additional payments conform to equal pay protections and are they robust? Undertake an analysis of all forms of additional payments made via payroll and test check to ensure appropriateness and compliance with HR policies. | ● | | | |
|--------------------------------------|---|---|--|--|--|

ICT

| | | | | | |
|--|--|--|---|--|--|
| Payment card Industry Data Security Standard | Ensure appropriate processes are in place to ensure adherence to industry standards relating to the use of payment card technology and systems | | ● | | |
| Data Storage | We will review electronic file storage arrangements, including storage capacity and cost of storing emails and electronic files. | | ● | | |

Revs. & Bens.

| Audit Title | Scope of Audit Work | Q1 | Q2 | Q3 | Q4 |
|-------------------------------------|--|----|----|----|----|
| Entitlement & Assessment/HB Subsidy | Review of the Council's arrangements for administration of the local Housing Benefit and CTS. Verify percentage of claims are reviewed by managers and CiC entered by officer and HB system is posted and reconciled on a regular basis to GL. Ensure that the systems and processes for the assessment, calculation and payment of HB & local council tax support are effective. The audit will verify the "means-test" calculation function is correct, applied consistently and there is documentary evidence to substantiate both the claimant's and partner's income and capital. | ● | | | |
| Business Rates | Tax database reconciled back to VO listing on weekly basis System reconciled to VO listing on weekly basis (reconciliation between VO listing & CTAX properties) | | ● | | |
| Sundry Debtors | This audit will review compliance with the Corporate Debt Policy, ensure payments are auto-matched to debtor accounts and receipts without a valid reference are posted to and cleared from a suspense account on a regular basis. Unpaid invoices are monitored and chased appropriately. Bad debts are appropriately authorised and accounted for before being written off. Collection performance is monitored and reported. Collection activity is focused and less priority is given to accounts with ageing balances which may not be 'real' receivables. | | | ● | |

Finance

| Audit Title | Scope of Audit Work | Q1 | Q2 | Q3 | Q4 |
|--|--|----|----|----|----|
| Budgetary Control and Savings | Review procedures used for monitoring the Council's budget, including budget setting, budget monitoring and savings monitoring. Assess the timely posting of journals and virements in the year to keep budget on track and test the integrity and robustness of procedures for the use of Hyperion for staff budget monitoring. | | ● | | |
| Hyperion system - (Revenue Budget Setting) | This audit will determine if the most appropriate use is being made of the Hyperion system and processes. The audit will verify the integrity of data input, quality control checks and reliance on spreadsheets. The audit will also verify the approach to pay, increments, vacancy factors etc. across service budgets | | | | |
| General Ledger | Using data analytics we will carry out checks to test the appropriateness of journal entries recorded in the general ledger. This will include trend analysis, high-value amounts, splitting of journal voucher entries, posted outside office hours, multiple debits or credits to the same GL account and fraud detection tests. We will verify that Journal transactions are transparent with a clear description, there is detailed supporting documentation and appropriate authorisation, there is an appropriate audit trail within Oracle Fusion and relevant "supporting papers" (possibly in electronic format) are held by the journal originator and there is appropriate separation of duties between the staff inputting the journal and those requesting/authorising the transaction. | | | | ● |
| Capital Accounting (Fixed Assets) | To provide assurance over the processes in place to accurately identify and account for capital spend, including updating the fixed asset register with additions/disposals and accounting for depreciation of capital assets. The audit will also review the robustness of capital spend monitoring. | | | | ● |

| Audit Title | Scope of Audit Work | Q1 | Q2 | Q3 | Q4 |
|------------------------------|---|----|----|----|----|
| Bank & Cash Rec (follow up) | The review will consider cash collection, banking arrangements and assess the adequacy of the cash/bank reconciliations. Ensure key controls over cash receipting systems within key service areas are effective. This will include Purchase ledger to general ledger reconciliation, Debtors ledger to general ledger reconciliation and monthly bank reconciliations for all bank accounts. The audit will verify the reconciliation of all control accounts and review the process to ensure these are completed in a timely way. | | ● | | |
| Creditors (Accounts Payable) | Using a data analytics we will undertake trend analysis, sampling, duplication detection and fraud detection tests on live Accounts Payable Data. We will review amendments to supplier details and verify they are appropriately authorised and inactive suppliers are periodically removed. Ensure payments are correctly coded, made promptly, in full and only in respect of authorised invoices and that orders for goods and services are placed in advance and appropriately authorised. | | | ● | |
| Payroll | The audit will verify the monthly payroll process is administered and controlled in a timely fashion. Every change or amendment to an employee's pay is properly supported by evidence, is appropriately authorised and securely held. Only genuine employees are paid, and at their contracted rates. There are controls in place to detect inputting and system errors arising from increased data entry by staff. Exception reports are produced to ensure that changes are highlighted and agreed. Payments and expenses paid to staff are timely, accurate and comply with statutory requirements. | | | ● | |

ENVIRONMENT & NEIGHBOURHOOD SERVICES

Housing

| Audit Title | Scope of Audit Work | Q1 | Q2 | Q3 | Q4 |
|-------------------------|--|----|----|----|----|
| Homes for Reading | This audit will review the procedures and policies for financial tasks (bank rec/business resilience etc.), monitoring, reporting and processes to ensure there is clarity about roles and responsibilities and suitable checks and balances in place. | ● | | | |
| Housing Revenue Account | To review the arrangements in place for monitoring the Council's HRA financial viability. To review recharges to HRA to make sure expenditure/income is applicable. | | | | ● |

Transport

| Audit Title | Scope of Audit Work | Q1 | Q2 | Q3 | Q4 |
|---|---|----|----|----|----|
| Residents Parking | Provide assurance on the adequacy on the adequacy and effectiveness of controls/processes over parking permits. The scope of this review will cover access to IT systems, eligibility and validation criteria, covering application and renewal process and ensure procedures in place over the payment of Residents Parking Permits are sound. | ● | | | |
| Local Transport Plan Capital Settlement (Grant Certification) | This audit will provide assurance to the Chief Executive and Head of Finance who are required to confirm to the DfT that, in all significant respects, the conditions of the specific grant determination have been complied with | | ● | | |
| Bus Subsidy Grant | The Bus Service Operators Grant (BSOG) for both commercial and non-commercial bus routes is administered centrally by the Department for Transport. The BSOG is the partial refund on fuel duty received from the government by operators of local bus services in England. The grant claim requires Head of Internal Audit certification. | | ● | | |

Leisure

| Audit Title | Scope of Audit Work | Q1 | Q2 | Q3 | Q4 |
|---------------------------|---|----|----|----|----|
| Leisure income collection | The audit will review controls over income collection, recording, reconciliation and banking at all RBC leisure centres, including bookings in advance. The audit will also cover access control to centres and the subsequent reconciliation to till receipts. | | ● | | |

Other

| | | | | | |
|-------------------|---|--|--|--|---|
| Commercialisation | To review the processes that the Council has in place to identify commercial opportunities, both in terms of maximising current income and generating new income streams. The audit will assess that cost recovery is done properly and the demand for that service, as well as an appropriate pricing strategy (fees/charges/recharges) is known and agreed. | | | | ● |
|-------------------|---|--|--|--|---|

CHILDREN, EDUCATION & EARLY HELP

Children

| Audit Title | Scope of Audit Work | Q1 | Q2 | Q3 | Q4 |
|---|--|----|----|----|----|
| Creation of Children's Company | This audit will review controls, constitution, governance etc for the newly created children's company | | ● | | |
| Administration of Looked After Children | The audit will review the effectiveness of controls in the following areas: accuracy and completeness of information held; timely completion of assessments and reviews; budget monitoring; and authorisation for spend on placements, based upon a sample of (e.g. 20 Children Looked After), excluding "fostered", "fostered by IFA" and "placed for Adoption". Predominately focusing on (high cost) external packages. Our audit will verify that processes are in place to ensure packages represent best value for money; funding options are robustly costed, monitored and there is robust challenge over the placement identification process and cost. We will also carry out substantive testing on payments to ensure placements are still in existence. | | | ● | |
| Troubled Families (Grant) | In accordance with the DCLG funding framework we will check and verify at least a representative sample (at least 10%) of results before each claim is made. Internal audit will verify the families' eligibility for the expanded Troubled Families Programme and whether the progress measures have been achieved, with supporting evidence. | | ● | | ● |

Education

| | | | | | |
|-------------------------|---|--|--|---|--|
| Special Education Needs | Children with Special Educational Needs (SEN) are areas of significant spend for the Council. Placements can be made within maintained schools, independent or non maintained schools. The commissioning approach used should be completed in line with defined Council protocol and requirements, to ensure that the needs of the service user are met while achieving Value for Money (VFM) for the Council. This audit will be split into two parts and will review the systems and processes in place for the commissioning of (1) SEN education only placements and (2) SEN joint social care and education funded placements to ensure: i) that there is a defined commissioning approach; ii) placements are commissioned in line with Council requirements and guidance iii) The selection of placement is appropriate (based on supporting audit trail), in line with the service user's needs and currently held contracts iv) placement decisions are formal, robust, transparent and consistent and v) An appropriate governance framework (including performance management and monitoring) is in place. | | | ● | |
|-------------------------|---|--|--|---|--|

Schools

| | | | | | |
|---------|--|--|--|---|---|
| Schools | Visit a small sample of maintained schools to give the Head of Finance adequate assurance over their standards of financial management and the regularity and propriety of their spending. | | | ● | ● |
|---------|--|--|--|---|---|

ADULT & HEALTHCARE SERVICES

Adults

| Audit Title | Scope of Audit Work | Q1 | Q2 | Q3 | Q4 |
|------------------------------------|---|----|----|----|----|
| Direct Payments (follow up review) | The regulations require direct payments to be routinely reviewed at least once every 12 months to make sure that the arrangements are meeting the service users' needs and that funds have been appropriately managed. A review of this area was completed in 2017/18. The findings emanating from the review resulted in a limited assurance opinion being given in respect of the control environment. This audit will follow up progress in implementing audit recommendations | | | ● | |
| Commissioning (Adults) | Review governance relating to placement contracts commissioned with external providers (Dom Care/Supported living/Residential & Nursing Care) to evaluate the effectiveness contract review and management processes to ensure effective challenge and performance management processes are in place. Analyse spend on spot purchasing to identify emerging trends and how VFM is obtained (spot purchasing v block provision) | | | ● | |
| Continuing Health Care (CHS) | The audit will test a sample of high cost placements to ensure NHS CHC has been appropriately considered. The audit will also ensure training is available to all adult social care staff covering statutory duties and legislation with regard to CHC together with the values and principles of carrying out a good assessment, key issues, the process, completing the checklist & decision support tool and informing service users. | ● | | | |
| MOSAIC Finance Module | RBC uses MOSAIC to support the delivery and management of its social care provision for adults and children, including paying providers, charging clients, financial assessments and managing contracts and services. This review will seek to provide assurance over the operating effectiveness of the MOSAIC Financial Module features/functionality in respect of payments/charging/financial assessments etc. | | | | ● |

Public Health

| | | | | | |
|---------------------------------|--|--|--|--|---|
| Public Health Grant (Follow up) | The Public Health ring-fenced grant funding conditions include specific reporting requirements to the Department of Health. They also require the Chief Executive or S151 Officer to provide a signed statement confirming that the grant has been used to discharge the public health functions set out in Section 73B(2) of the National Health Service Act 2006. A review of this area was completed in 2017/18. The findings emanating from the review resulted in a limited assurance opinion being given in respect of the control environment. This audit will follow up progress in implementing audit recommendations | | | | ● |
|---------------------------------|--|--|--|--|---|

Internal Audit Charter

(2018/2019)

We aim to provide a high quality cost-effective service, which adapts and responds to the Authority's needs based on achieving a high standard of professionalism and expertise in service delivery and also to contribute in achieving best value public services.



www.reading.gov.uk



Reading
Borough Council
Working better with you

1. Background

- 1.1 The Public Sector Internal Audit Standards (PSIAS) requires that an Internal Audit Charter is in place for each local authority. The Charter must be consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards contained in the PSIAS.
- 1.2 This Charter establishes the purpose, authority and responsibilities for the internal audit service for Reading Borough Council (RBC) and has been drawn up in line with the PSIAS requirements and is further informed by the CIPFA Local Government Application Note (April 2013) published to assist in the implementation of the PSIAS.
- 1.3 This Internal Audit Charter is subject to approval by the Audit and Governance Committee of Reading Borough Council (RBC) on an annual basis, in line with PSIAS requirements.

2. Role

- 2.1 Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Reading Borough Council ("RBC" or "the Council"). It assists the Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.
- 2.2 The Internal Audit function's main purpose is to provide independent, objective assurance and advisory services designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The function provides independent and objective evaluation of, and opinion on, the overall adequacy and effectiveness of the framework of governance, risk management and control in.
- 2.3 This includes identification of risks and assessment of their management, and implementation of changes to strengthen the governance framework. The Chief Auditor's opinion is a key element of the framework of assurance that the Chief Executive and Leader of the Council needs to inform the completion of the Annual Governance Statement.

3. Purpose, Responsibilities and Objectives of Internal Audit

- 3.1 Internal Audit is an independent appraisal function established within the authority - as part of the Corporate Support Services Directorate - with the following objectives¹:
- To provide an effective Internal Audit Service, on behalf of the Director of Finance (sec 151 officer), in line with legislation and the appropriate audit standards;
 - To provide an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations;
 - To help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 3.2 It is the responsibility of the Chief Auditor to provide an independent and objective opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 3.3 The Chief Auditor reports to the Audit and Governance Committee on a regular basis in line with the agreed work programme for the Committee. There are a number of standard items reported including the annual Internal Audit plan, an annual opinion on the control environment and regular updates on reports issued. The Chief Auditor's annual report is presented to those charged with governance and should be used to support the Council's Annual Governance Statement.
- 3.4 Internal Audit employees will ensure that they conduct work with due professional care and in line with the requirements of the PSIAS and any other relevant professional standards.
- 3.5 Internal auditors will treat as confidential the information they receive in carrying out their duties. There must not be any authorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of an audit will not be used to affect personal gain.

4. Scope of Internal Audit Activities

- 4.1 The scope for Internal Audit is the control environment comprising risk management, control and governance. This effectively includes all of the council's operations, resources, services and responsibilities in relation to other bodies. This description shows the wide potential scope of Internal Audit. In order to translate this description into individual audit reviews, a risk assessment methodology is applied that allows high-risk review areas to be prioritised (also see Section 8.)

¹ Financial Regulations -Section 2.8 'Internal Audit'

- 4.2 To enable Internal Audit to meet its objectives, it will undertake work within a scope of activities including:
- review of controls within existing systems and systems under development
 - compliance with policies and procedures including Financial Regulations
 - transactions testing to ensure accuracy of processing
 - contract audit
 - establishment reviews
 - computer audit including data analytics
 - anti-fraud work
 - investigation of suspected fraud and irregularities
 - value for money reviews and transactions testing
 - provision of advice to Directorates and services including consulting services
 - provision of audit services to external clients.

5. Definition of Consulting Services

- 5.1 The PSIAS defines consulting services as follows: *“Advisory and client related 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.”*
- 5.2 The PSIAS requires that approval must be sought from the Audit & Governance Committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement (Standard 1130.).

6. Arrangements for Appropriate Resourcing

- 6.1 As stated in the CIPFA Application Note, *“No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence-based opinion. Local factors within each organisation will determine this minimum level of coverage.”*
- 6.2 The annual audit plan lays out the planned audit resources for the year with the objective of giving an evidence-based opinion.
- 6.3 Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate on-going development programme.

- 6.4 In the event that the risk assessment, carried out to prepare the annual plan, identifies a need for more audit work than there are resources available, the Chief Auditor will identify the shortfall and advise the Director of Finance followed by the Audit & Governance Committee as required to assess the associated risks or to recommend additional resources are identified.
- 6.5 The audit plan will include a contingency allocation to address unplanned work including responding to specific control issues highlighted by senior management during the year.
- 6.6 Internal audit work is prioritised according to risk, through the judgement of the Chief Auditor, informed by the Council's risk registers and in consultation with senior management and External Audit.
- 6.7 Internal audit activity is subject to annual review by External Audit.
- 6.8 Progress on the annual plan is reported to the Audit & Governance Committee on a regular basis throughout the year. Should circumstances arise, during the year, that resources fall or appear to be falling below the minimum level required to provide an annual evidence based opinion the Chief Auditor will advise the Director and Head of Finance and the Audit & Governance Committee.

7. Organisational Independence of Internal Audit

- 7.1 The PSIAS requires that reporting and management arrangements must be put in place that preserve the Chief Auditor's independence and objectivity, in particular with regard to the principle that the Chief Auditor must be independent of the audited activities.
- 7.2 PSIAS Standard 1110 requires that the Chief Auditor reports to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. CIPFA and the Chartered Institute of Internal Auditors expect that the Chief Auditor should report to at least corporate management team level.
- 7.3 Within RBC, the Chief Auditor reports functionally to the Audit & Governance Committee and administratively to the Director of Finance (Sec 151 Officer) and has direct right of access to the Chief Executive. The Chief Auditor also has direct access to the Chair of the Audit & Governance Committee.
- 7.4 The Internal Audit team will ensure that independence and objectivity are maintained in line with the PSIAS including where non-audit work is undertaken. To manage potential conflicts of interest, internal auditors have no operational responsibilities and any independence issues are highlighted at the planning stage for individual audit assignments.
- 7.5 If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed in the first instance to the Chief Auditor and reported to the Section 151 officer as appropriate.

- 7.6 Internal Audit will have no executive responsibilities. It is not an extension of, or a substitute for, the function of management. Responsibility for internal control rests fully with managers, who should ensure that arrangements are appropriate and adequate. It is for management to accept and implement audit recommendations or to accept the risk resulting from not taking any action.
- 7.7 The Chief Auditor will confirm to the Audit and Governance Committee on an annual basis, within the Annual Report, the organisational independence of the Internal Audit Service.
- 7.8 The Chief Auditor will report audit findings to the Council's Corporate Management Team and Audit & Governance Committee.

8. Planning

- 8.1 The annual audit plan will be submitted to the Audit and Governance Committee at the beginning of the financial year for approval. The plan will be compiled following consultation with the Chief Executive, the Director of Finance, individual Directors and other senior officers as appropriate.
- 8.2 The risk-based plan will outline the audit assignments to be carried out.
- 8.3 The audit plan is dynamic in nature and will be reviewed and realigned on a regular basis to take account of new, emerging and changing risks and priorities. It will be based on a risk assessment covering the impact and likelihood of the inherent risk for each auditable area. It will be responsive, containing an element of contingency to accommodate assignments which could not have been reasonably foreseen.
- 8.4 Internal Audit will consult with the Council's external auditor and with other relevant inspection and review bodies, as required, in order to co-ordinate effort and avoid duplication.
- 8.5 As part of the planning process, the Chief Auditor will identify other potential sources of assurance and will include in the risk based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 8.6 For each audit assignment, Internal Auditors will develop and document a plan including the objectives of the review, the scope, timing and resource allocations. In planning the assignment, auditors will consider, in conjunction with the auditees, the objectives of the activity being reviewed, significant risks to the activity and the adequacy and effectiveness of the activity's governance, risk management, including risk of fraud and control processes.

9. Reporting and Follow Up

- 9.1 A written report will be prepared by the appropriate auditor for every audit review and distributed in line with established and agreed reporting protocols. This will include an opinion on the adequacy of controls in the area that has been audited.
- 9.2 The draft report will be discussed with the auditees and a response obtained for each recommendation stating their response to each recommendation along with a timescale for implementation. The final report will include the management responses and will be issued to the relevant Director and other officers in line with directorate protocols.
- 9.3 Any reports where limited or no assurance has been provided for the control environment and/or compliance with the control environment will be subject to a follow up review to determine whether the recommendations made have been implemented.
- 9.4 Regular update reports to Audit and Governance Committee will show the activity of the Internal Audit Section, progress achieved against plan and a summary of significant audit findings.
- 9.5 The annual report will incorporate the annual opinion, a summary of the audit work that supports the opinion and a statement on conformance with the PSIAS and the results of the Quality Assessment and Improvement Programme (QAIP.)
- 9.6 The PSIAS also requires the Chief Auditor to establish a follow up process to monitor and ensure actions have been effectively implemented. This is an established process within RBC, with a follow up review being undertaken on any assignments with limited assurance/no assurance, to ensure recommendations have been adopted and suggested controls are working well in practice.

10. Assurance to external organisations

- 10.1 The format and scope of any assurances provided to external organisations will be agreed in advance with the recipient organisation and will be documented in contract terms/service level agreement or equivalent. The work carried out to provide such assurances will be conducted in accordance with Internal Audit's quality procedures and service standards. These will be included in the annual audit plan.

11. Fraud and Corruption

- 11.1 Managing the risk of fraud and corruption is the responsibility of management; Internal Audit will assist management in the effective discharge of this responsibility.
- 11.2 Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have the responsibility for the prevention or detection of fraud and corruption. Internal Audit will, however, be alert in all their work to risks and exposures that could allow fraud and corruption.
- 11.3 In line with Financial Regulations (Section 6.5 - Preventing Fraud and Corruption), whenever any matter arises that involves, or is thought to involve irregularities concerning cash, stores or other property of the council or any suspected irregularity in the exercise of the functions of the council, including bequests, trust and client monies, it must be immediately brought to the attention of the respective Director. Where the irregularity is thought to involve fraud, corruption or impropriety the Director must ensure that the matter is reported to the Chief Auditor. If the irregularity or suspected irregularity involves theft or suspected theft of assets, it must also be referred to the Police. In addition where a break-in is suspected, the Police must be informed immediately.

12. Authority of Internal Audit

- 12.1 Internal Audit is a statutory requirement in local government. The Accounts and Audit (England) Regulations 2015 which came into force on the 1st April 2015 state that:
 - (i) *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.*
 - (ii) *Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—*
 - (a) *make available such documents and records; and*
 - (b) *supply such information and explanations; as are considered necessary by those conducting the internal audit.*
 - (iii) *In this regulation "documents and records" includes information recorded in an electronic form.*

- 12.2 The statutory role is recognised and endorsed within the Council's Financial Regulations², which provides the authority for access as follows:

Directors must ensure that Internal Audit is allowed to:

- (i) Enter any council premises or land at all reasonable times;*
- (ii) Access all records, documents, data held on computer media, and correspondence relating to all transactions of the council, or unofficial funds operated by an employee as part of their duties;*
- (iii) Receive such explanations as are necessary concerning any matter under examination.*
- (iv) Require any employee of the council to produce cash, stores or any other property under their control, belonging to the council or held as part of the employee's duties.*

13. Code of Ethics

- 13.1 All our Internal Auditors must conform to the Chartered Institute of Internal Auditors Code of Ethics. The code promotes an ethical culture in a profession founded on the trust placed in its objective assurance about risk management, control and governance.
- 13.2 The Code of Ethics includes 2 essential components - the Principles and Rules of Conduct (which are an aid to interpreting the Principles into practical applications.)
- 13.3 Internal Auditors will adhere to RBC relevant policies and procedures (including the Employee Code of Conduct) and local Internal Audit procedures.
- 13.4 All Internal Auditors will be qualified by experience, hold a professional qualification, or be training towards a professional qualification.
- 13.5 In addition, all internal auditors have a personal responsibility to undertake a programme of continuing professional development (CPD) to maintain and develop their competence. This is fulfilled through the requirements set by professional bodies and through the Council's appraisal and development programme.

² Financial Regulations - Section 2.8 'Internal Audit'

14. Review of the Effectiveness of Internal Audit

14.1 The Accounts and Audit (England) Regulations 2011 required councils to conduct, at least once a year, a review of the effectiveness of its internal audit. Within RBC, the internal audit annual report and opinion provides an overview of the work and performance of Internal Audit throughout each year. The annual report, along with independent reviews by the external auditors, provides an assurance of the effectiveness of the Internal Audit service during the year.

14.2 These 2011 regulations have now been superseded by the Accounts and Audit Regulations 2015 which maintain the requirement for an effective internal audit function and state that:

A relevant authority must, each financial year—

(a) conduct a review of the effectiveness of the system of internal control

14.3 Internal Audit will continue to provide assurance on the effectiveness of the function through the annual reporting process.

15. Quality Assurance and Improvement Programme (QAIP)

15.1 The PSIAS requires that a quality assurance framework be established, which will include both internal and external assessment of the work of Internal Audit.

15.2 The Chief Auditor is responsible for providing periodically an internal quality assessment (IQA) on the internal audit activity as regards its consistency with the requirements of the PSIAS. This will be carried out through annual self-assessment using the checklist in the CIPFA Application Note. Results of these IQAs will be communicated to the Director of Finance and the Audit and Governance Committee.

15.3 Internal Audit issues a customer satisfaction questionnaire following each audit assignment. The results are used to determine areas for improvement and inform the continuing personal development training programme for Internal Audit staff.