

**READING BOROUGH COUNCIL
EXECUTIVE DIRECTOR OF RESOURCES**

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	30 January 2020		
TITLE:	Draft Indicative Internal Audit Plan 2020 - 2021		
LEAD COUNCILLOR:	COUNCILLOR EMBERSON	PORTFOLIO:	CORPORATE AND CONSUMER SERVICES
SERVICE:	FINANCE	WARDS:	N/A
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1. PURPOSE OF THE REPORT

- 1.1 This report sets out the work Internal Audit plans to undertake during the financial year 2020/2021.
- 1.2 It is internal audit's responsibility to provide an annual formal opinion on the Council's control environment. In the context of the Public Sector Internal Audit Standards¹, '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. Internal audit will word its opinion appropriately if it cannot give reasonable assurance (e.g. because of limitations to the scope of, or adverse findings arising from, its work).
- 1.3 The attached audit plan (appendix 1) will allow for the effective discharge of this responsibility. In accordance with the Accounts and Audit regulations² and the Public Sector Internal Audit Standards the Council's Audit and Governance Committee is required to approve and monitor progress against, the internal audit plan.
- 1.4 Accompanying the audit plan is the internal audit charter which sets out the purpose, authority, responsibility and scope of internal audit. The Public Sector Internal Audit Standards (PSIAS) intend to ensure sound corporate governance and set out roles and responsibilities with regard to the delivery of internal audit services. The PSIAS require an Internal Audit Charter to be in place which will be reviewed periodically and presented to the Corporate Governance and Audit Committee for approval.

¹ The Public Sector Internal Audit standards - Applying the IIA International Standards to the UK Pubic Sector 2013

² 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.

1.5 The following document is attached to this report:

- Draft Internal Audit plan for 2020/2021 (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 2020 to March 2021 and notes the content of the Internal Audit Charter.

3. INTERNAL AUDIT PLAN

- 3.1 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. It also supports the Executive Director of Resources in discharging his/her statutory duties.
- 3.2 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 Assistant Directors 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.
- 3.3 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.
- 3.4 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.
- 3.5 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.
- 3.6 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. 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

- 6.1.1 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.
- 6.1.2 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.
- 6.1.3 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

Draft Indicative Internal Audit Plan

(2020/2021)



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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 Executive Director of Resources in discharging his/her statutory duties. The following are two key pieces of legislation that internal audit supports the Executive Director of Resources to comply with:
 - i. Section 151 of the Local Government Act 1972. The Executive 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 in exercising his/her responsibility for financial administration.
 - ii. The Accounts and Audit Regulations state 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'. 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 2020-21.

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 Assistant Directors 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 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 The Chief Auditor in liaison with the Executive 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 Plan and be kept informed of the audits undertaken.

- 3.3 The indicative Internal Audit programme for 2020-2021 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.
- 3.4 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. The current structure allows for five internal auditors at varying degrees of experience. However, the equivalent of approximately half a post is provided to resource the Brighter Future for Children (BfFC) internal audit plan. This does leave the internal audit function with little or no real resilience. This is factored into the audit planning, with the planned reviews based on the experience and resources available.

5. Individual Audits

- 5.1 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.
- 5.2 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 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.
- 5.3 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.
- 5.4 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.

5.5 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

6.2 Whether or not and 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 by the audit team. 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.

6.3 A summary of Internal Audit recommendations which remain outstanding is reported to the Audit & Governance Committee Quarterly. The status of these recommendations is updated by the action owners and hasn't necessarily been followed up by internal audit. Internal Audit will only follow up those recommendations relating to a report which has been assigned limited assurance.

6.4 Prior to reporting to Committee officers responsible for implementing the specific recommendations are asked to update the 'implementation tracker'. Each recommendation is marked with a percentage complete which correlates to a red/amber/green rating depending on the percentage of completeness. Up to 25% complete is marked red, between 26% and 75% complete is amber and over 75% complete is green. However, any recommendations that are less than 50% complete but have exceeded their agreed completion date are also marked red.

6.5 Where there is a lack of progress with implementation of audit recommendations the Assistant Director and responsible officer (if they are different) will be asked to attend a meeting of the Committee to explain the difficulties with implementation and the steps they are taking to address them.

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.

9. Internal Audit plan

- 9.1 The draft internal audit plan of activities proposed for internal audit review during the 2020/21 financial year is shown on the following pages (pages 7 - 11).

Planned Internal Audit Review Area	Planned Internal Audit Coverage
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Q1	Q2	Q3	Q4
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Securing the economic success of Reading

Car Parks (off street)	To review the operational controls and processes with regards to income collection (including electronic card payments).
Commercialisation	This audit will review the governance framework in place to oversee the Council's current and future trading activity. The operating model, costing and billing processes will be reviewed.
Investment Properties	Review arrangements for procuring investment properties, rent is received and accounted for, insurance cover is in place, data is accurate and the portfolio is reported on and monitored sufficiently.
Fixed Assets (Asset Register)	Routine review of the management of the council's fixed assets, including maintenance of the asset register.

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Improving access to decent housing to meet local needs

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.
Rent Guarantee Scheme	Review the new 'enhanced offer' scheme - guaranteed level of rent - verify control over the rent deposit scheme, make sure that new systems and processes are robust
Stores Contract	Review the adequacy and effectiveness of internal control over the stores contract, covering the ordering, collection of materials and the payment mechanism. The audit will also review what areas are making use of the contract and whether or not the contract is working and costing as intended.

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Planned Internal Audit Review Area	Planned Internal Audit Coverage
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Q1	Q2	Q3	Q4
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Protecting and enhancing the lives of vulnerable adults and children

MOSAIC payment controls (Finance Module)	Processes and controls leading to payments generated via Mosaic and the completeness of information held on the system. Specific areas of coverage to be determined at the time of scoping. As a fundamental system of the Council, this should be considered as an annual audit
Deferred Payments	Verify how the monies are recovered from the proceeds of sale once the property is sold. The Care Act (2014) places a new duty to provide deferred payments and charge interest on these. Verify the system and controls for managing this process
Out of area contracts (placements)	Placement decisions and management. Is there sufficient information about the financial implications? How are they monitored and are specialist placements being regularly reviewed?
Contract Management (Adults)	Review governance relating to placement contracts commissioned with external providers.
Adults Short Stay Placements & Respite Care	A review of adults short stay placements and respite care processes and systems to ensure arrangements are adequate and effective to meet objectives, minimise risk and deliver value for money.
Intercompany accounting	This audit will review the process for billing Brighter Futures for Children (BfFC), to ensure the correct amounts are journaled across, supporting evidence is available and transfers are authorised.

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Planned Internal Audit Review Area	Planned Internal Audit Coverage
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Q1	Q2	Q3	Q4
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Keeping Reading's environment clean, green and safe

Waste PFI contract	To ensure the correct payments have been made to all parties. The audit will review contract compliance, governance and payment arrangements and the measurement / accounting of waste volumes.
Staff Vehicle Documentation (Grey Fleet)	This review will select a sample of managers across the council to confirm that they are reviewing appropriate documents to allow staff to use their own vehicles on behalf of Council business. In light of the Council's climate change agenda the audit will assess how much the Council is spending on mileage claims for grey fleet drivers, the number of miles recording and the types of journeys made to see if best use of public transport is being made.
Licensing	Scope will include, issuing & reviewing licences, handling appeals, income management & inspections. Also incorporate review of enforcement action to ensure compliance with all relevant taxi legislation and regulations e.g. vehicle inspection, insurance and licensing checks.

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Promoting health, education, culture & wellbeing

New Directions (ESFA funded adult education budget)	This audit will review grant funding; there's numerous aspects to consider, but as there's potential for clawback. Areas to be covered are Sub-contractors, signed learning agreements for all learners, entitlement and eligibility to funding. RARPA evidence for all non-accredited learning and Learning Support.
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Planned Internal Audit Review Area	Planned Internal Audit Coverage
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Q1	Q2	Q3	Q4
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Ensuring the Council is fit for the future

Budgetary Control	This review will seek to determine whether there are effective budget monitoring and reporting arrangements in place to track the progress of the identified savings targets. Provide scrutiny over high value and high risk savings plans to substantiate delivery
Transparency Code Compliance	The review will verify that the Transparency Code has been adopted, systems have been put in place to extract the relevant data from the various systems and data being published is accurate, reliable, timely and in a suitable format.
Additional Payments	Following a review in 2018/2019 the audit concluded that the existing processes required enhancement. This follow-up audit will aim to provide assurance that the actions taken by management put forward to address the recommendations made, have been implemented.
Subject Access Requests (SAR)	We will undertake a review of the arrangements to process SAR requests.
Collection Fund	The audit will provide assurance that income is maximised - discounts & exemptions are correctly applied, robust policies are in place to support the effective management and recovery of revenues. The audit will review controls over reconciliations, assessing the revenue generated from the collection of council tax and business rates applied to the relevant account code.
Feeder system interface and reconciliation	The audit review feeder system interface with the GL and reconciliation - is the process automated or is there manual intervention? The audit will cover all feeder systems to fusion, payroll, Mosaic etc. and focus where there is manual intervention.
Purchasing cards	To ensure that the controls surrounding the issue, administration and monitoring of purchase cards are operating as expected.

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Planned Internal Audit Review Area	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4
Payroll	HR and Payroll utilise I-Trent, a platform that delivers end-to-end HR and payroll processing. All overtime, travel and subsistence transactions are submitted through I-Trent. The purpose of this audit will be to review and assess the design and effectiveness of controls in relation to payroll activity to provide assurance over the accuracy, completeness and timeliness of transactions undertaken.			●	
Pre-employment checks	The audit will review procedures for verifying the suitability of candidates and for comparing their relative abilities. The audit will also evaluate procedures in respect of obtaining references (and confirming references as valid), confirming essential qualifications and undertaking police checks (where necessary). Vetting checks, including identity checks, DBS checks and ensuring candidates have leave to remain and work in the UK		●		
Sundry Debtors	This review will seek to review the process for transferring balances and AR history from the current system to Fusion and verify controls have been set up properly.				●
General Ledger	Routine review of the council's main accounting processes				●
Accounts Payable	The audit will ensure there is adequate control over the requisition and purchase order, receiving the invoice and making the payment. Mechanisms are in place to ensure that duplicate payments are avoided and/or detected. There are appropriate authorisation levels, management reporting, reconciliations are timely, payments are correctly coded to the cost centre and subjective codes and VAT is accounted for.				●
Records Management & Document Retention Policy	An area of concern across services. A review of understanding of and compliance with the Council's retention and disposal policies.	●			

Internal Audit Charter

(2020/2021)

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.



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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 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 Resources Directorate - with the following objectives¹:
- To provide an effective Internal Audit Service, on behalf of the Executive Director of Resources (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 Executive Director of Resources 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 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 Executive Director of Resources 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 Executive Director of Resources (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 Executive Director of Resources, 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, 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 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 require councils to conduct, at least once a year, a review of the system of internal control. 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 system of internal control.

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.