Rother District Council

Report to	-	Audit and Standards Committee
Date	-	18 May 2020
Report of the	-	Executive Director
Subject	-	Internal Audit Plan 2020/21

Recommendation: It be **RESOLVED**: That the Internal Audit Plan 2020/21 be approved.

Audit Manager: Gary Angell

Introduction

1.   The Accounts and Audit Regulations 2015 require the Council to "undertake an effective Internal Audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards or guidance". The proper practice for the Internal Audit Service is laid down in the Public Sector Internal Audit Standards (hereafter referred to as "the Standards").

2.   These standards are met by establishing a risk-based plan to determine the priorities of the Internal Audit Service, consistent with the Council's goals. This plan must take into account the requirement to produce an annual Internal Audit opinion and the assurance framework. It must also incorporate or be linked to a strategic or high-level statement of how the Internal Audit Service will be delivered and developed in accordance with the Internal Audit Charter.

3.   The Audit Manager is required to communicate the plan and resource requirements, including significant interim changes, to senior management and the Audit and Standards Committee for review and approval. In order to approve the Internal Audit Plan for 2020/21, Members must first be satisfied that it meets the above requirements.

Assurance Map

4.   The Standards require that the Audit Manager considers other sources of assurance as part of the planning process. An 'assurance map' has therefore been developed to assess the level of assurance provided.

5.   An assurance map is a visual representation of the various assurance activities carried out across an organisation. Its purpose is to assist our understanding of the assurance received, to evaluate its adequacy and to highlight any potential gaps in coverage.

6.   To produce an assurance map for this Council, the main sources of assurance were first grouped based on the 'three lines of defence' model shown below.

First Line	Second Line	Third Line
The first level of the defence is the control environment – the business operations that perform day to day risk management activity.	Oversight functions such as the Strategic Management Team and individual committees which set directions, define policy and provide assurance.	Internal and external audit, and any other scrutiny or regulatory body that offer independent challenge to the levels of assurance provided by business operations and oversight functions.

7.   The effectiveness of each type of assurance across a number of key services and processes is then assessed and scored, and a traffic light system is used to indicate the level of assurance obtained. Any gaps in assurance are highlighted in red.

8.   The assurance map was last reported to this Committee in December 2018. This document has now been updated and the current position (as at January 2020) is shown in Appendix A. Our assessment methodology is set out in Appendix B.

9.   The results of this exercise have been used to inform the preparation of the Audit Plan for 2020/21. It should be noted however that not all areas highlighted as High or Medium risk feature in this plan because of other considerations – e.g. the subject may only recently have been reviewed or there could be outstanding recommendations from a previous audit which are still being monitored or the next review may be temporarily deferred for operational reasons.

Audit Plan 2020/21

10.   The Audit Plan sets out Internal Audit's work programme to obtain assurance on the Council's control environment. The Audit Plan for 2020/21 is attached in Appendix C.

11.   The plan represents the second year of operation of a three-year Strategic Audit Plan which was approved by Members in March 2019. However, as is normal practice for a rolling plan, the original Year 2 (2020/21) plan has been updated to reflect the results of a recent risk assessment exercise carried out by the Audit Manager including new and emerging risks identified through discussions with the Heads of Service. The results of the latest assurance map were also taken into consideration.

12.   The plan has been compiled by the Audit Manager in accordance with the Internal Audit Charter 2017. The Executive Directors and Heads of Service have all been consulted about the contents of the plan and the final version detailed in this report was reviewed by the Strategic Management Team in February 2018 and is supported by them.

13.   The plan allows for 563 days of audit work on 24 separate audit reviews/ consultancy activities, plus provisions for counter fraud work. It is important that the plan includes a broad range of activities as this allows the Audit Manager to obtain sufficient assurance from the audit work to enable him to

present an annual Internal Audit opinion on the adequacy of the control environment.

14. As in previous years, a significant portion of the plan will be spent on the annual Governance Audits. These audits are reviewed each year as failures in these areas could have a negative impact on the External Auditor's overall opinion of the Council's financial statements.

15. The remainder of the plan has been updated as necessary based on the risk assessment exercise mentioned above. All systems/activities rated as high risk have been included in the plan, except where they have recently been reviewed. All other audits in the plan are medium risk items and these are usually only reviewed once in the three-year cycle.

Resources

16. Best practice dictates that the Plan should meet the audit needs of the organisation, regardless of the level of resources available to deliver it. If the days required exceed the days available, then it is for senior management to decide whether additional resources should be made available or whether they are content to accept the risks involved of not carrying out some of the reviews, and state which reviews should be omitted.

17. The resources for the Audit Plan 2020/21 are shown in Appendix D. From this it can be seen that it will be possible to meet the total resource requirement using existing resources as predicted in the Strategic Audit Plan.

Reporting Arrangements

18. Progress against the Plan will be monitored by the Audit Manager and reported to the Audit and Standards Committee once a quarter. The content of the Plan will also be kept under review by the Audit Manager in liaison with the Strategic Management Team and Heads of Service, and adjusted if required, to ensure that it continues to reflect the Council's needs and priorities.

Conclusion

19. The Audit Plan needs to provide sufficient coverage to meet the Council's statutory duty. The three-year Strategic Audit Plan and the annual Audit Plan aim to meet this requirement by optimising the effectiveness of Internal Audit so as to contribute to the achievement of sound governance.

20. The Audit and Standards Committee should note the report, approve the Audit Plan for 2020/21 and make any comments considered appropriate to their governance role.

Malcolm Johnston
Executive Director

Risk Assessment Statement
A strong, independent and well supported Internal Audit function ensures that the Council does not suffer from poor internal control systems.

Service or Process	First Line of Defence — Functions that own and manage risk				Second Line of Defence — Functions that oversee or specialise in risk management compliance			Third Line of Defence — Functions that provide independent assurance			Gap Analysis - Cumulative Points	Internal Audit - Assurance Gap Risk Analysis
	Management self assessements	Key Performance Indicators	Complaints Reporting	Strategy/Policy In Place	Strategic Management Team	Risk Management	Reporting to Members	Internal Audit	External Audit	Third party assurance/advice		
Asset Management	0		0	0	0	3	0	0			3	Low
Contract Compliance	3	0	0		0	3	0	3			9	Medium
Data Protection	3		0	3	0	3		3			12	Medium
Environmental Services	0		0	0	0	3	0	0			3	Low
Financial Services	0		0	0	0	3	0	0	0		3	Low
Housing	3	3	0	0	0	3	0	3			12	Medium
Human Resources & Payroll	0		0	3	0	3		0			6	Low
ICT Security	0		0	3	0	3		0			6	Low
Planning	0	0	0	0	0	3	0	0			3	Low
Procurement	3		0	3	0	3		3			12	Medium
Property Investment	3	3	0	0	0	5	0	3		0	14	High
Revenues & Benefits	0	0	3		0	3	0	0	0		6	Low
Risk Management	3		0	3	0		3	3			12	Medium
Treasury Management	0		0	0	0	3	0	0	0	0	3	Low

Processes Assurance Key and Scoring

Good Assurance	0
Moderate Assurance	3
Inadequate Assurance	5
Not Applicable	

Assurance Gap Risk Analysis Key

Low Risk (0-6)	Low
Medium Risk (7-12)	Medium
High Risk (13+)	High

Rother Assurance Map – Methodology

First Line of Defence

Management Self-Assessments

Ideally an exercise should be carried out by management to determine the levels of assurance they consider to be in place for processes under their control. This should be based on their opinion of the quality of internal controls, the quality of operational management, the experience and knowledge of staff etc. However, in order to complete this section of the map we have mirrored the Internal Audit assurance ratings. This is done on the basis that management have agreed the Internal Audit reports and have had an opportunity to challenge areas where they disagree. On the whole, Internal Audit reports are accepted by management without dispute.

Key Performance Indicators

The Council has a number of Key Performance Indicators (KPIs) that are reported to Members at the Overview and Scrutiny Committee. However, these do not cover all the services identified in the assurance map. Furthermore, there are some KPIs which are reported that are not included in the mapping exercise as the processes concerned are not considered to be areas of significant strategic risk - e.g. Customer Services.

Out of the five process areas identified where KPIs were applicable, two were behind target at the time of this exercise – i.e. Housing and Property Investment (i.e. Asset Income). The assurance level in both these areas is therefore rated as "amber".

Complaints Reporting

Details of all official complaints received by the Customer Services team between April 2019 and December 2019 were reviewed. Complaints were received in respect of a number of areas, notably Contract Compliance (Waste contract), Planning and Revenues & Benefits. However, out of the 59 complaints recorded in the period, the only area where a complaint has been upheld was Revenues & Benefits. This area was therefore rated as "amber".

Strategy/Policy in Place

Any processes where an up-to-date policy or strategy is in place are rated "green". Processes which are in place, but which are overdue a review are rated "amber".

Second Line of Defence

Strategic Management Team

The level of assurance in this section is based on the amount of senior management oversight and awareness of current issues in the listed areas. The scores shown were discussed and agreed by the Strategic Management Team.

Rother Assurance Map – Methodology (continued)

Risk Management

The Corporate Risk Register was reviewed to ascertain if risks have been identified and are being addressed. The Corporate Risk Register was last updated in November 2018 meaning that the risks previously identified are not being actively monitored. All such risks are therefore rated "amber".

Asset Management, Environmental Services, Planning and Revenues & Benefits are only covered in the broadest sense by the risk "Failure of a significant system supplier". Housing is only partly addressed by the risk "Safeguarding Children and Vulnerable Adults".

Property Investment is rated "red" because this key area does not feature at all in the Corporate Risk Register.

Reporting to Members

All processes where regular reports are made to Members are rated "green".

Risk Management is rated "amber" as updates are only reported annually.

Third Line of Defence

Internal Audit

Assurance ratings are based on Internal Audit findings on engagements carried out in the last two years. Any processes where there has been at least one minimal overall audit assurance rating or two limited audit assurance ratings are marked as "red". Any processes which have had one limited audit assurance rating are marked as "amber". Processes where all audits undertaken in the last two years have had a good or substantial audit assurance rating are marked as "green".

There are three audit processes where no audit engagements have been completed in the last two years, namely Data Protection, Property Investment, and Risk Management. As only moderate assurance can be given on these three processes, they have been marked as "amber".

External Audit

The external auditors give assurance on the final accounts and the Housing Benefit subsidy claims. As no significant issues have been reported in recent years, all relevant processes have been marked as "green".

Third Party Assurance/Advice

Only two categories were identified where this is applicable – Property Investment and Treasury Management. Professional and legal advice is obtained regarding the acquisition of land and property, and Link Asset Services provide advice on Treasury Management issues.

Rother Assurance Map – Methodology (continued)

Scoring System and Analysis

Processes Assurance Key and Scoring

This is set out in the yellow box at the bottom of the assurance map. Points are awarded based on whether the assurance function provides good, moderate or inadequate assurance. These scores enable us to quantify the level of assurance received and identify those areas of higher risk where control may need to be improved.

Gap Analysis – Cumulative Points

This column records the cumulate scores after all sources of assurance have been taken into consideration.

Internal Audit - Assurance Gap Risk Analysis

This column is aimed at prioritising areas for future Internal Audit assurance and consultancy exercises.

Using the scoring system outlined above, the results are then banded into three categories; Low, Medium and High risk.

AUDIT PLAN 2020/21

GOVERNANCE AUDITS	DAYS
Benefits	25
Business Rates	20
Cash and Banking	15
Council Tax	25
Creditors	25
Debtors	15
ICT Governance	15
Main Accounting	10
Payroll	25
Treasury Management	20
TOTAL	**195**

OTHER GOVERNANCE WORK	DAYS
Joint Waste Contract - Central Admin	25
TOTAL	**25**

HIGH & MEDIUM RISK AUDITS	DAYS
BACS/BACSTEL-IP Computer System	8
Camber Beach & Foreshore	10
Data Protection	15
Estates Income	15
Homelessness Prevention Initiatives	15
Housing Temporary Accommodation	10
Land Charges	12
Licensing	12
Planning Income	15
Works Contracts	16
TOTAL	**128**

CONSULTANCY WORK	DAYS
ERP System - HR/Self-Service Health Check	5
ERP System - Implementation/Ongoing Advice	10
New Initiatives - Audit Advice	20
TOTAL	**35**

AUDIT PLAN 2020/21 (Continued)

COUNTER FRAUD WORK	DAYS
Fraud Analysis & Referrals	60
NFI Coordination & Review	15
TOTAL	75

OTHER WORK	DAYS
2019/20 Audit Plan Overruns	10
Audit Advice/Special Investigations	60
Committee Representation and Training	20
Liaison with External Audit	5
Recommendation Follow Up	10
TOTAL	105

TOTAL CHARGEABLE DAYS	563
NUMBER OF AUDITS AND CONSULTANCY WORK	24

RESOURCES FOR THE AUDIT PLAN 2020/21

	TOTALS	Audit Manager	Senior Auditor	Internal Auditor
AUDIT TEAM		G. Angell	S. Akehurst	S. Thomas
FTE POSTS	**3.0**	**1.0**	**1.0**	**1.0**
DAYS AVAILABLE	**783**	**261**	**261**	**261**
PLANNED AUDIT WORK	**Days**			
Governance Audits	195			
Other Governance Work	25			
High & Medium Risk Audits	128			
Consultancy Work	35			
Counter Fraud Work	75			
Other Work	105			
TOTAL CHARGEABLE DAYS	**563**			
NON-CHARGEABLE TIME	**Days**			
Supervision & Management	50	40	10	0
Team Meetings	18	6	6	6
Seminars & Training	12	3	3	6
Planning & Business Development	10	10	0	0
Performance Appraisals	4	2	1	1
Annual Leave (Inc. Days Carried Over)	87	33	32	22
Public Holidays	24	8	8	8
Sickness	15	5	5	5
Maternity/Paternity Leave	0	0	0	0
Vacancies/Recruitment	0	0	0	0
TOTAL NON-CHARGEABLE DAYS	**220**	**107**	**65**	**48**
TOTAL RESOURCE REQUIREMENT	**783**			
TOTAL AVAILABLE DAYS	**783**			