

Rother District Council

Report to: Audit and Standards Committee

Date: 21 March 2022

Title: Internal Audit Plan 2022/23

Report of: Gary Angell, Audit Manager

Purpose of Report: To report the proposed programme of Internal Audit work for the coming year.

Officer

Recommendation(s): It be **RESOLVED**: That:

- 1) the Internal Audit Plan 2022/23 be approved.
 - 2) the revised Internal Audit Charter in Appendix F be approved
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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 2022/23, Members must first be satisfied that it meets the above requirements.

Overview of Audit Planning Process

4. The preparation of the Audit Plan is a three-step process:

Step	Process	Description
1	Review the Assurance Map	Update the existing assurance map to identify any gaps in assurance requiring review.
2	Risk assessment	A list of all auditable activities is maintained by the Audit Manager and each area is risk assessed and scored by him based on multiple criteria such as the

		volume and value of transactions, the results of previous audits, system complexity, strategic importance, and the frequency of change. This list is updated throughout the year as new audits are completed and information on new or emerging risks become known. The latest position is reviewed in February each year for audit planning purposes.
3	Draft the Audit Plan	The work plan for the coming year is then compiled reflecting the results of Steps 1 and 2 and available staff resources.

Assurance Map

5. 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.
6. An assurance map provides a visual representation of the various sources of assurance received by an organisation on its management of strategic risks. Its purpose is to assist our understanding of the assurance received, to evaluate its adequacy and to highlight any potential gaps in coverage.
7. To produce an assurance map for this Council, the main sources of assurance were first grouped based on the 'three lines model' shown below.

First Line	Second Line	Third Line
<p>Functions that own and manage risk.</p> <p><i>The business operations which contribute to internal control and the day to day management of risk.</i></p>	<p>Functions that oversee or specialise in risk management compliance.</p> <p><i>Oversight functions include the Corporate Management Team and individual committees which set directions, define policy and provide assurance.</i></p>	<p>Functions that provide independent and objective assurance, and advice on all matters related to the achievement of objectives.</p> <p><i>These functions include Internal Audit, 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.</i></p>

8. 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 significant gaps in assurance would be highlighted in red but there are none on this occasion.

9. The assurance map was last reported to this Committee in March 2021. This document has now been updated and the current position (as at February 2022) is shown in Appendix A. Our assessment methodology is set out in Appendix B.
10. Only one area (Risk Management) was identified as medium risk on this occasion. Such an assessment would ordinarily have led to its inclusion in the forthcoming Audit Plan, but in view of the improvements proposed in the Risk Management Update (featured elsewhere on this agenda), the Internal Audit Team has decided to defer the next review until 2023/24 to allow time for the changes to be implemented.

Risk Assessment

11. A risk assessment exercise was carried out by the Audit Manager in February 2022 and includes all new and emerging risks identified through discussions with the Corporate Management Team and Heads of Service.
12. All activities assessed to be high risk are included in the new Audit Plan. Medium risk activities are generally reviewed every two to three years, and the new plan excludes any that have only recently been reviewed. Low risk activities are ignored to make the best use of audit resources.

Audit Plan 2022/23

13. The Audit Plan sets out Internal Audit's work programme to obtain assurance on the Council's control environment. It was agreed by this Committee at its December 2021 meeting (Minute AS21/41 refers) that the three-year strategic audit plan would be replaced by standalone annual audit plans from here on. The Audit Plan for 2022/23 is attached in Appendix C.
14. Other medium risk areas that were considered when compiling the new plan, but not included in final version, are listed in Appendix D for information. There are a few items on this list that have not been audited for some time. This is mainly due to the backlog of audit work caused by the COVID-19 pandemic. However, the same is also true of several audits that do feature in the plan, and due regard had to be given to other factors when determining which audits to include. For example, prioritising those areas with the longest gap between audits, including areas where there are known changes since the last review, and organising the work to avoid over-burdening those managers responsible for multiple areas of audit interest. Most of the areas on the list are however scheduled to be reviewed in 2023/24.
15. The plan has been compiled by the Audit Manager in accordance with the Internal Audit Charter 2022 (see paragraph 21). The Corporate Management Team and Heads of Service have been consulted about its contents and the final version detailed in this report is supported by the Chief Executive.
16. The plan allows for 532 days of audit work on 22 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.

17. 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.

Resources

18. 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.
19. The resources available for the work planned in 2022/23 are shown in Appendix E. From this it can be seen that it will be possible to meet the total resource requirement of the plan using existing resources.

Reporting Arrangements

20. 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 Corporate Management Team and adjusted if required, to ensure that it continues to reflect the Council's needs and priorities.

Internal Audit Charter 2022

21. The Standards require the development and adoption of an Internal Audit Charter to define the purpose, authority and principal responsibilities of the Internal Audit Service. The existing charter was last revised in May 2020 and now needs to be updated in light of organisational changes and the move away from a three-year strategic audit plan. A revised Internal Audit Charter is therefore provided in Appendix F for Members' consideration and approval.

Conclusion

22. The Audit Plan needs to provide sufficient coverage to meet the Council's statutory duty. The annual Audit Plan aims to meet this requirement by optimising the effectiveness of Internal Audit, so as to contribute to the achievement of sound governance.
23. The Audit and Standards Committee should note the report, approve the Audit Plan for 2022/23 and make any comments considered appropriate to their governance role.

Risk Management

24. Failure to produce a risk-based audit plan could result in Internal Audit not providing management with independent assurance where it is most needed and could increase the risk of serious control weaknesses going undetected.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	External Consultation	No
Environmental	No	Access to Information	No
Risk Management	Yes	Exempt from publication	No

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Appendices:	<p>A – Rother Assurance Map (February 2022)</p> <p>B – Rother Assurance Map – Methodology</p> <p>C – Audit Plan 2022/23</p> <p>D – Other audit areas considered but not included in the plan</p> <p>E – Resources for the Audit Plan 2022/23</p> <p>F – Internal Audit Charter 2022</p>
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Relevant Previous Minutes:	AS21/41 Internal Audit Report to 30 September 2021
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Background Papers:	None.
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Reference Documents:	None.
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Service or Process	First Line				Second Line			Third Line			Gap Analysis - Cumulative Points	Internal Audit - Assurance Gap Risk Analysis
	Functions that own and manage risk				Functions that oversee or specialise in risk management compliance			Functions that provide independent and objective assurance, and advice				
	Management self assessments	Key Performance Indicators	Complaints Reporting	Strategy/Policy In Place	Corporate Management Team	Risk Management	Reporting to Members	Internal Audit	External Audit	Third party assurance/advice		
Asset Management	0	3	0		0	0	0	0			3	Low
Contract Compliance	0		0		0	0	0	0			0	Low
Data Protection	0		0	3	0	0		0			3	Low
Environmental Services	0		0	0	0	0	0	0			0	Low
Financial Services	0		0	0	0	0	0	0	3		3	Low
Health and Safety	3		0	0	0	0		3		0	6	Low
Housing	0	3	3	0	0	0	0	0			6	Low
Human Resources & Payroll	0		0	3	0	0		0			3	Low
ICT Security	0		0	3	0	0		0		3	6	Low
Planning	0	3	3	0	0	0	0	0			6	Low
Procurement	3		0	0	0	0	0	3			6	Low
Property Investment	3		0	0	0	0	0	3		0	6	Low
Revenues & Benefits	0	0	3	0	0	0	0	0	0		3	Low
Risk Management	3		0	0	0		0	3		3	9	Medium
Treasury Management	0		0	0	0	0	0	0	0	0	0	Low

Processes Assurance Key and Scoring	
Good Assurance	0
Moderate Assurance	3
Inadequate Assurance	5
Not Applicable	

Changes to Assurance Gap Risk Analysis since Feb 2021

Asset Management, Contract Compliance and Data Protection have all moved from Medium to Low risk.
 Risk Management has moved from Low to Medium risk.
 All other assessments remain unaltered.

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

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 the services/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. We have done this on the basis that management agree the Internal Audit reports and have an opportunity to challenge areas where they disagree. On the whole, Internal Audit reports are accepted by management without dispute.

Key Performance Indicators

Note – This section is based solely on the Key Performance Indicators (KPIs) that have been reported to the Overview and Scrutiny Committee for the first six months of 2021/22.

The Council has a number of KPIs that are reported to Members at the Overview and Scrutiny Committee. However, these do not cover all the services/processes identified in the assurance map, and only four areas have relevant KPIs. These are set out in the table below.

Assurance Map Service or Process	Key Performance Indicators
Asset Management	<ul style="list-style-type: none"> • Net income from all investment assets
Housing	<ul style="list-style-type: none"> • Number of all households in Temporary Accommodation • Average weeks in Temporary Accommodation • Number of households on the Housing Register • Net additional homes provided • Number of affordable homes delivered (gross)
Planning	<ul style="list-style-type: none"> • Major applications processing times • Minor applications processing times
Revenues & Benefits	<ul style="list-style-type: none"> • Number of Council Tax Reduction Claimants • Council Tax Collection Rates • Business Rates Collection Rates

The Performance Report for the Second Quarter 2021/22 submitted to the committee in November 2021 was examined. This showed that whilst Revenues & Benefits KPIs were performing well, most of the other KPIs were behind target, despite improvement in some areas.

The assurance level for Revenues & Benefits is therefore rated as “green” and the three other areas are rated as “amber”.

Complaints Reporting

Details of all official complaints received by the Customer Services team between 1st January 2021 and 31st January 2022 were reviewed. A total of 221 complaints were received in this period but the vast majority were resolved.

Seven complaints were upheld. These are made up of six Stage 1 complaints in respect of Housing (1), Planning (4) and Council Tax (1), and one Stage 2 complaint (Planning). Housing, Planning and Revenues & Benefits are therefore rated as “amber”.

Strategy/Policy in Place

Any services/processes where an up-to-date strategy or policy is in place are rated “green”. Strategies and policies which are overdue a review are rated “amber”.

Second Line

Corporate 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 shared with the Corporate Management Team and agreed by the Chief Executive.

Risk Management

The Corporate Risk Register was reported to the Audit and Standards Committee in March 2021 and again in September 2021.

The latest Corporate Risk Register was reviewed to ascertain what risks have been identified and addressed.

Asset Management, Environmental Services, Planning, and Revenues & Benefits are only covered in the broadest sense by the risks “Significant loss of staff due to pandemic”, “Failure of a significant system supplier”, “Buildings unavailable due to incident/accident”, “Loss of staff and recruitment”, and possibly “Significant Legal case against Council”.

Reporting to Members

All service/processes which are regularly reported to Members are rated “green”.

Third Line

Internal Audit

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

Appendix B

There are two services/processes where no routine audit engagements have been completed in the last two years, namely Procurement and Risk Management. As only moderate assurance can be given in these areas, they have been marked as “amber”. Similarly, Health & Safety is yet to be reviewed by Internal Audit, so this is also marked as “amber” for the purposes of this exercise.

External Audit

The External Auditors give assurance on the final accounts and the Housing Benefit subsidy claims. Where no significant issues have been reported in recent years, the relevant services/processes have been marked as “green”. Financial Services has been marked as “amber” because of issues found with the property valuations in the accounts.

Third Party Assurance/Advice

The three main areas where this is applicable are Health and Safety, Property Investment and Treasury Management.

Health and Safety – The Health and Safety Executive (HSE) carry out spot checks and no issues have been highlighted in the past 12 months. The Council also uses an external company that is registered with the Institution of Occupational Safety and Health (IOSH) for advice and training.

Property Investment – Professional and legal advice is obtained regarding the acquisition of land and property.

Treasury Management – Link Asset Services provide advice on Treasury Management issues.

All of these areas are therefore marked as “green”.

A recent review by Zurich Resilience Solutions on Enterprise Risk Management, Business Continuity and Disaster Recovery (currently at draft report stage) includes recommendations for improvement pertinent to ICT Security and Risk Management. Both are therefore marked as “amber”.

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.

The Gap Analysis scores are banded into three assurance categories; low, medium and high risk in accordance with the parameters shown in the blue box at the bottom of the assurance map.

AUDIT PLAN 2022/23

GOVERNANCE AUDITS	DAYS
Benefits	25
Business Rates	20
Council Tax	25
Creditors	25
Debtors	15
ICT Governance	15
Main Accounting	10
Payroll	25
Treasury Management	20
TOTAL	180

HIGH & MEDIUM RISK AUDITS	DAYS
Building Maintenance	12
Capital Programme	15
Community Infrastructure Levy (CIL)	20
Cyber Security	20
Homelessness Prevention Initiatives	20
ICT Asset Management	10
Licensing	15
Procurement	15
Property Investment	15
Public Conveniences Cleaning Contract - Client Control	10
Reprographics Sales Income	5
TOTAL	157

CONSULTANCY WORK	DAYS
New HR/Payroll System - Consultancy	10
New Initiatives - Audit Advice	20
TOTAL	30

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

AUDIT PLAN 2022/23 (Continued)

OTHER WORK	DAYS
Audit Advice/Special Investigations	50
Committee Representation and Training	25
Liaison with External Audit	5
Recommendation Follow Up	10
TOTAL	90

TOTAL CHARGEABLE DAYS	532
NUMBER OF AUDITS AND CONSULTANCY WORK	22

Other audit areas considered but not included in the plan

Audit Title	Last Review	Notes
Asset Management	Jun-18	Looking to replace ePIMS with in-house solution. Defer next review until 2023/24
BACS/BACSTEL-IP Computer System	Feb-22	Only recently reviewed. Next review 2024/25
Car Park Income	Aug-20	Next review due 2023/24
Climate Change	Never	Defer first review until 2023/24 to allow time for progress
Data Protection	Jun-21	Only recently reviewed. Next review 2024/25
Estates Income	Jun-21	Only recently reviewed. Next review 2023/24
Food Safety	Jun-18	Next review rescheduled to 2023/24
Grounds Maintenance Contract – Client Control	Oct-21	Only recently reviewed. Next review 2023/24
Housing Temporary Accommodation	Sep-21	Only recently reviewed. Next review 2024/25
Income Management	Nov-21	Only recently reviewed. Next review 2023/24
Income Tax	Sep-16	Next review rescheduled to 2023/24
Land Charges	Jun-21	Only recently reviewed. Next review 2024/25
Legal Services	Aug-11	Revisit VFM audit after new service provision is agreed
M3 Computer System	Feb-17	Env. Services - M3 due to be replaced in Oct 2022 by Idox-Tascomi. Review 2023/24
Planning Income	Jul-17	Reduced risk as most fees now paid online. Next review rescheduled to 2023/24
Pollution Control	Dec-21	Only recently reviewed. Next review 2024/25
Risk Management	Jun-15	COVID-19 risks reviewed 2020/21. New approach planned. Defer until 2023/24
Section 106 Agreements	Jun-18	Next review rescheduled to 2023/24
Temporary Accommodation Investment	Never	First review 2023/24 - to check business case and due diligence for each TA property purchase
Value Added Tax (VAT)	Jan-22	Only recently reviewed. Next review 2024/25
Waste Contract - RDC Client Control	Aug-21	Only recently reviewed. Next review 2024/25
Works Contract (General Provision)	Nov-21	Only recently reviewed (Blackfriars Project). Consider other contracts 2023/24

All of the above areas were assessed as medium risk in February 2022.

RESOURCES FOR THE AUDIT PLAN 2022/23

	TOTALS	Audit Manager	Senior Auditor	Internal Auditor
FTE POSTS	3.0	1.0	1.0	1.0
DAYS AVAILABLE	783	261	261	261
PLANNED AUDIT WORK	Days			
Governance Audits	180			
High & Medium Risk Audits	157			
Consultancy Work	30			
Counter Fraud Work	75			
Other Work	90			
TOTAL CHARGEABLE DAYS	532			
NON-CHARGEABLE TIME	Days			
Management & Supervision	20	20	0	0
Team Meetings	30	10	10	10
Training	16	2	2	12
Planning & Business Development	12	10	2	0
Performance Appraisals	4	2	1	1
Review of Governance Audit Coverage	10	2	4	4
Annual Leave (Inc. Days Carried Over)	91	33	32	26
Public Holidays	27	9	9	9
Sickness	12	4	4	4
Maternity/Paternity Leave	0	0	0	0
Vacancies/Recruitment	0	0	0	0
Non-Audit Work - COVID-19 Grant Returns	5	0	0	5
Non-Audit Work - Elections	0	0	0	0
Non-Audit Work - RM Coordination	24	24	0	0
TOTAL NON-CHARGEABLE DAYS	251	116	64	71
TOTAL RESOURCE REQUIREMENT	783			
TOTAL AVAILABLE DAYS	783			