

Rother District Council

Report to:	Audit and Standards Committee
Date:	20 March 2023
Title:	Internal Audit Plan 2023/24
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 the Internal Audit Plan 2023/24 be approved.

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 2023/24, 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

Step	Process	Description
		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

- 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.
- An assurance map provides a visual representation of the various sources of assurance received by an organisation on its management of key service areas. Its purpose is to assist our understanding of the assurance received, to evaluate its adequacy and to highlight any potential gaps in coverage.
- 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 Senior Leadership 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>

- 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 are highlighted in red.

9. The assurance map was last reported to this Committee in March 2022. This document has now been updated and the current position (as at February 2023) is shown in Appendix A. Our assessment methodology is set out in Appendix B.
10. This year, one area is highlighted as a high risk assurance gap (Financial Services). This is primarily due to four audits in this area having received limited assurance ratings in the period January 2021 to December 2022. The audits concerned are Creditors (2021/22), BACS/BACSTEL-IP Computer System (2021/22), Debtors (2021/22), and Capital Programme (2022/23). However, almost all of the issues raised at these audits have since been addressed, and Internal Audit review Financial Services each year anyway as part of the Governance audits.
11. In addition, four areas were identified as medium risk, namely Contract Compliance, the Housing Company, Planning and Procurement. The Housing Company's governance arrangements are due to be reviewed by Internal Audit in 2023/24 and a follow up review of the issues found at a recent Community Infrastructure Levy audit (Planning) will also be carried out. No specific audits are, however, planned on Procurement, as this area will be covered at other audits, or Contract Compliance, as several audits under this heading have been completed within the last 24 months.

Risk Assessment

12. A risk assessment exercise was carried out by the Audit Manager in February 2023 and includes all new and emerging risks identified in service plans produced by officers in the Corporate Management Team.
13. Most activities assessed to be high risk are included in the new Audit Plan. Those that are not have been excluded on this occasion because they have only recently been reviewed and the issues found will be covered/followed up elsewhere.
14. Medium risk activities are generally reviewed every two to three years, but low risk activities are ignored to make the best use of audit resources.

Audit Plan 2023/24

15. The Audit Plan for 2023/24 is attached in Appendix C.
16. Other high and medium risk activities that were also considered when compiling the new plan, but were not included in the final version, are listed in Appendix D for information. As indicated above, items are generally left out of the current plan where they have only recently been reviewed or where the issues found at the latest audit are being addressed elsewhere. The list also contains a few audits that are overdue a review, which have had to be deferred another year in order to prioritise the coverage of newer, more riskier activities.

17. The plan for 2023/24 has been compiled by the Audit Manager in accordance with the Internal Audit Charter approved by this Committee in December 2022 (Minute AS22/43 (2) refers). The Corporate Management Team have been consulted about its contents and the final version detailed in this report is supported by the Chief Executive.
18. The plan allows for 494 days of audit work on 21 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.
19. The completion of the plan will be particularly challenging as it incorporates a number of new and complex audit areas (i.e. Corporate Project Management and Housing Company Governance) as well as a full programme of other high/medium risk activities, with very little scope to absorb audit overruns if any significant issues are found. In view of this, the Audit Manager may well need greater flexibility than usual to vary the plan during the year to cope with any additional work, including any new risk areas that emerge. The Audit and Standards Committee will however be informed of any major changes.
20. As in previous years, a significant portion of the plan will be spent on the 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. It should be noted, however, that the Main Accounting audit, which was a Governance Audits in previous years, no longer features in the Plan. This is because the value of this audit (which only ever provided assurance on a few aspects of the Council's accounting arrangements) has been reassessed and will now be discontinued in its current format. The audit was only reinstated in 2019/20, following an earlier period of cessation, in order to provide additional assurance after a major upgrade of the Council's financial system. That system is now well-established, and the Main Accounting audit seldom identifies any issues due to its limited scope. The Audit Manager has therefore decided to cease the audit once more, and the few areas in it that are still worthy of annual review, such as checks on system interfaces and suspense accounts, will now be incorporated elsewhere in the Governance Audits.
21. Members may note that the section of the plan listing the high and medium risk audits now includes several short, targeted reviews. This approach, which was first piloted during the COVID-19 pandemic, allows the auditor to provide assurance on single activities or known issues rather than carrying out a full audit of the whole system. These particular audits should therefore be concluded more quickly than would otherwise be the case.

Resources

22. 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. However, in practice, the Audit

Manager will always plan to undertake all essential work within existing resources, whenever possible.

23. The resources available for the work planned in 2023/24 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

24. 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.

Conclusion

25. The Audit Plan needs to provide sufficient coverage to meet the Council's statutory duty. Internal Audit aim to meet this requirement by focusing on high and medium risk activities across a broad range of services.
26. The Audit and Standards Committee should note the report, approve the Audit Plan for 2023/24, and make any comments considered appropriate to their governance role.

Risk Management

27. 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:	A – Rother Assurance Map (February 2023) B – Rother Assurance Map – Methodology C – Audit Plan 2023/24 D – Other audit areas considered but not included in the plan E – Resources for the Audit Plan 2023/24
Relevant Previous Minutes:	None.
Background Papers:	None.
Reference Documents:	None.

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	Senior Leadership Team	Risk Management	Reporting to Members	Internal Audit	External Audit	Third party assurance/advice		
Asset Management	0	0	0		0	0		0			0	Low
Contract Compliance	3		3		0	0		3			9	Medium
Data Protection	0		0	0	0	0		0			0	Low
Environmental Services	0		3	0	0	0	0	0			3	Low
Financial Services	5	3	0	0	0	0	0	5	0		13	High
Health and Safety	3		0	0	0	0		3		0	6	Low
Housing	0	3	3	0	0	0	0	0			6	Low
Housing Company	3		0	0	0	3	3	3			12	Medium
Human Resources & Payroll	0		0	3	0	0		0			3	Low
ICT Security	0		0	0	0	0		0		3	3	Low
Planning	3	3	3	0	0	0	0	3			12	Medium
Procurement	3		0	3	0	0		3			9	Medium
Property Investment	0		0	0	0	0	0	3		0	3	Low
Revenues & Benefits	0	0	0	0	0	0	0	0	0		0	Low
Risk Management	3		0	0	0		0	3		0	6	Low
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 2022

- The Housing Company has been added.
- Financial Services has moved from Low to High risk
- Contract Compliance, Planning and Procurement have all moved from Low to Medium risk.
- Risk Management has moved from Medium to Low 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. The only area of disagreement was the rating of the Property Investment audit for which management consider there to be good rather than moderate assurance.

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 2022/23.

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 five 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
Financial Services	<ul style="list-style-type: none"> • Additional Income Generation
Housing	<ul style="list-style-type: none"> • Number of all households in Temporary Accommodation • Number of households on the Housing Register • Number of affordable homes delivered (gross) • Homelessness Prevented/Relieved • Cost of Temporary Accommodation
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 2022/23 submitted to the Committee in November 2022 was examined. This showed that, whilst the Asset Management KPI, Revenues & Benefits KPIs and some Housing KPIs are performing well, the other KPIs are all behind target.

The assurance level for Asset Management and Revenues & Benefits are 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 1 January 2022 and 31 December 2022 were reviewed. A total of 143 complaints were received in this period but the vast majority were resolved.

A total of seven complaints were upheld. These were all Stage 1 complaints in respect of Contract Compliance – Refuse Collection (4), Environmental Services (1), Housing (1) and Planning (1). All of these areas are therefore rated as “amber”. No Stage 2 complaints were fully upheld in this period.

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

Senior Leadership 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 and agreed by the Senior Leadership Team.

Risk Management

All strategic risks are recorded in the Corporate Risk Register. The risk register was reported to the Audit and Standards Committee in March 2022 and again in September 2022.

Separate risk registers are required to be kept for all corporate projects.

All Heads of Service/Service Managers must also record and monitor operational risks in Service Risk Registers as part of a new Service Plan process.

The latest Corporate Risk Register and Service Risk Registers were reviewed to ascertain what risks have been identified and addressed. These risk registers covered all areas in the assurance map apart from the Housing Company. All areas covered by a risk register are therefore rated “green” and the Housing Company rated as “amber”.

Reporting to Members

All service/processes which are regularly reported to Members are rated “green”. The Housing Company is rated as “amber” because the governance arrangements are yet to be finalised.

Third LineInternal 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”.

Those services/processes that are either yet to be reviewed by Internal Audit (Health & Safety and the Housing Company) or where no routine audit engagements have been completed in the last two years (Risk Management), are all 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. As no significant issues have been reported in the past 12 months, the relevant services/processes have all been marked as “green”.

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 review by Zurich Resilience Solutions on Enterprise Risk Management, Business Continuity and Disaster Recovery dated January 2022 includes recommendations for improvement pertinent to ICT Security and Risk Management. The ICT Security issue (i.e. the need to update the disaster recovery plan) is yet to be resolved and is therefore marked as “amber”. However, recent improvements have been made to the Risk Management process and this marked as “green” accordingly.

Scoring System and AnalysisProcesses 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 2023/24

GOVERNANCE AUDITS	DAYS
Benefits	25
Business Rates	17
Council Tax	22
Creditors	25
Debtors	15
ICT Governance	15
Payroll	25
Treasury Management	20
TOTAL	164

HIGH & MEDIUM RISK AUDITS	DAYS
Blackfriars Spine Road Project	25
Car Park Income	20
Community Infrastructure Levy (CIL) - Follow-Up *	5
Corporate Project Management	20
Destin (Property Management) System *	10
Housing Company Governance	10
ICT Asset Management *	10
Licensing	15
Risk Management	10
Section 106 Agreements - Income Collection *	15
Temporary Accommodation Investment	15
TOTAL	155

* Short, targeted reviews

CONSULTANCY WORK	DAYS
New Initiatives - General Provision	15
Grant Receipts	5
TOTAL	20

COUNTER FRAUD WORK	DAYS
Fraud Analysis & Referrals	60
NFI Coordination & Review	10
TOTAL	70

AUDIT PLAN 2023/24 (Continued)

OTHER WORK	DAYS
2022/23 Audit Plan Overruns	6
Audit Advice/Special Investigations	42
Committee Representation and Training	25
Liaison with External Audit	2
Recommendation Follow Up	10
TOTAL	85

TOTAL CHARGEABLE DAYS	494
NUMBER OF AUDITS AND CONSULTANCY WORK	21

Notes

Risk Management – The Audit Manager will not be able to take part in this audit review because of his role as Risk Management Co-ordinator. The Senior Auditor will therefore oversee the whole process instead.

Other audit areas considered but not included in the plan

Audit Title	Last Review	Notes
High Risk Areas		
Capital Programme	Jun-22	Only recently reviewed but significant issues found. Recommendations being followed up by Audit Manager.
Procurement	Jun-22	Only recently reviewed. Compliance with Procurement Rules is also tested throughout the year at other audits.
Property Investment	Oct-22	Recent audit identified the need to review financial viability. This point will be picked up at Corporate Project Management Audit.
Medium Risk Areas		
Asset Management	Jun-18	Looking to replace ePIMS with in-house solution. Defer next audit to 2024/25
BACS/BACSTEL-IP Computer System	Feb-22	Only recently reviewed. Next audit 2024/25
Building Maintenance	Sep-22	Only recently reviewed. Next audit 2025/26
Climate Change	Never	Defer first review until 2024/25 to allow time for progress
Cyber Security	Dec-22	Only recently reviewed. Next audit scheduled for 2024/25. Basic security already checked each year at ICT Governance audit.
Data Protection	Jun-21	Assessed substantial at 2021/22 review but Audit Manager is still following-up actions outstanding. Next audit 2024/25
Disabled Facilities Grants	Jun-19	Last reviewed 2019/20. Historically, a well controlled system. Still managed by same officer so next audit deferred to 2024/25
Estates Income	Jun-21	Few issues found at 2021/22 review. Next audit 2024/25
Food Safety	Jun-18	Next audit rescheduled to 2024/25
Grounds Maintenance Contract – Client Control	Oct-21	Contract size likely to reduce soon due to devolvement - Next audit 2025/26
Homelessness Prevention Initiatives	Oct-22	Only recently reviewed. Next audit 2025/26
Housing Temporary Accommodation	Sep-21	Reviewed 2021/22. Next audit 2024/25
Idox Cloud Computer System (recently replaced the M3 system)	Never	Idox Cloud only went live on 17/02/23. Allow time to bed-in and review 2024/25
Income Management	Nov-21	Last reviewed 2021/22. Review again in 2024/25 once new income manager system in place.
Income Tax	Sep-16	Long-established processes in place with few changes. CIS monitoring now picked up each year at Creditors audit
Land Charges	Jun-21	Reviewed 2021/22. Next audit 2024/25
Legal Services	Aug-11	Revisit VFM audit after new service provision is agreed.
Planning Income	Jul-17	Reduced risk as most fees now paid online. Next audit rescheduled to 2024/25
Pollution Control	Dec-21	Only minor issues found at 2021/22 review. Next audit 2024/25
Public Conveniences Cleaning Contract - Client Control	Dec-22	Only recently reviewed. Contract size likely to reduce soon due to devolvement. Next audit 2025/26
Value Added Tax (VAT)	Jan-22	Reviewed 2022/23. Next audit 2025/26
Waste Contract - RDC Client Control	Aug-21	Reviewed 2021/22. Next audit 2024/25

RESOURCES FOR THE AUDIT PLAN 2023/24

	TOTALS	Audit Manager	Senior Auditor	Internal Auditor
FTE POSTS	3.0	1.0	1.0	1.0
DAYS AVAILABLE	780	260	260	260
PLANNED AUDIT WORK	Days			
Governance Audits	164			
High & Medium Risk Audits	155			
Consultancy Work	20			
Counter Fraud Work	70			
Other Work	85			
TOTAL CHARGEABLE DAYS	494			
NON-CHARGEABLE TIME	Days			
Management & Supervision	18	18	0	0
Team Meetings	36	12	12	12
Data Analytics	22	2	20	0
Training/CPD	15	5	5	5
Planning & Business Development	12	10	2	0
Performance Appraisals	4	2	1	1
Plan/Review Audit Coverage	19	2	15	2
Annual Leave (Inc. Days Carried Over)	91	33	32	26
Public Holidays	30	10	10	10
Sickness	12	4	4	4
Maternity/Paternity Leave	0	0	0	0
Vacancies/Recruitment	0	0	0	0
Income Generation - Explore Options	10	10	0	0
Non-Audit Work - Elections	3	1	1	1
Non-Audit Work - RM Coordination	14	14	0	0
TOTAL NON-CHARGEABLE DAYS	286	123	102	61
TOTAL RESOURCE REQUIREMENT	780			
TOTAL AVAILABLE DAYS	780			