

## Agenda Item 4

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<b>Date</b>	17 <sup>th</sup> March 2016

<b>Subject</b>	Internal Audit Strategy 2016/2017
<b><u>RECOMMENDATIONS</u></b>	
1.1	That the Committee notes the proposed work plan and recommends amendments as appropriate

<b><u>SUMMARY</u></b>	
2.1	To seek Members' views and alternative areas for consideration on the proposed Internal Audit Strategy

### **BACKGROUND**

- 3.1 Internal Audit is a statutory requirement in local government as defined in the Local Government Act 1972. The Accounts and Audit Regulations 2011 (Regulation 6) state that 'A relevant body must maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'
- 3.2 The Council has delegated this responsibility to the Deputy Chief Executive / Section 151 Officer and appointed RSM UK (formerly Baker Tilly) as their Internal Auditors through a joint contract with neighbouring Local Authorities.
- 3.3 To enable the Council and the S151 Officer to effectively discharge their responsibilities in relation to the Internal Audit service, the Audit performance is monitored and the Audit Committee assists in the promotion of effective internal control and corporate governance within the Council.
- 3.4 The previous Internal Audit Strategy was approved by the Audit Committee on the 12 March 2015. This new Strategy sets out the proposed Audit Work Plan for 2016/17 and the broad areas of assurance over the next three years.

- 3.5 The proposed areas of review have been considered by the Council's Senior Management Team and the conclusions of that meeting are built in to the attached version of the programme.

### **CORPORATE IMPLICATIONS**

- 4.1 **Legal Implications** – None contained within the report.
- 4.2 **Financial Implications** - There are no direct financial implications arising from this report.
- 4.3 **Risk Implications** – Delivery of the Internal Audit Strategy is based upon an analysis of:
- Risk based coverage such as Risk Management, Corporate Governance Reviews and Information Technology (IT) Systems in the Council.
  - Addressing specific key risk areas in the Plan
  - Follow-up review and management of the Audit Plan
- 4.4 **Equalities Implications** – None contained within the report.
- 4.5 **Employment Issues** – None contained within the report.
- 4.6 **Sustainability Issues** – None contained within the report.
- 4.7 **Consultation** – None contained within the report.

### **BACKGROUND PAPERS**

- None



## MOLE VALLEY DISTRICT COUNCIL

Updated Internal Audit Strategy 2016/17

Presented at the Audit Committee meeting of:

17 March 2016





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# 1 INTRODUCTION

Our approach to developing your internal audit plan is based on analysing your corporate objectives, risk profile and assurance framework as well as other, factors affecting Mole Valley District Council in the year ahead, including changes within the sector.

## 1.1 Background

Mole Valley District council is a [local government district](#) in [Surrey](#), based in [Dorking](#). The two towns in the district are [Dorking](#) and [Leatherhead](#). The Council's vision and priorities are set out in the Corporate Strategy 2015-19.

## 1.2 Vision

The vision of the council is detailed in the Corporate Strategy as:

“A place where people want to live, work, do business and spend their leisure time”.

There are guiding principles given, which are:

- sustainability,
- cost effectiveness, and
- openness and accessibility.

With priorities set out under the headings of:

- environment,
- prosperity, and
- community wellbeing.

## 2 DEVELOPING THE INTERNAL AUDIT STRATEGY

We use your objectives and risks as the starting point in the development of your internal audit plan.

### 2.1 Risk management processes

We have evaluated your risk management processes and consider that we can continue to place reliance on your risk registers to inform the internal audit strategy.

We have discussed priorities for internal audit coverage with the Head of Financial Services who in turn consulted with the Corporate Management Board.

### 2.2 How the plan links to your strategic objectives

Each of the reviews that we propose to undertake is detailed in the internal audit plan and strategy within Appendices A and B. In the table below we bring to your attention particular key audit areas and discuss the rationale for their inclusion or exclusion within the strategy.

Area	Reason for inclusion or exclusion in the audit plan/strategy
IT Audit – Cyber security	There has been considerable press coverage of organisations who have been subject to breaches and the loss of critical systems.
Business Continuity	Not reviewed for some time, and given capital works ongoing at Pippbrook particularly we will look to provide assurance that there are appropriate and adequate plans in place for the continuation of council services.
Income activities	We have included three specific areas to ensure that the Council is maximising income opportunities and that all income is being recovered in full. These are: <ul style="list-style-type: none"><li>- telecare</li><li>- car parking</li><li>- licensing</li></ul>
PCI code of conduct compliance – follow up	Management have requested a follow up review of the management actions agreed following our 2015/16 audit of this area.
Asset Management	TBC

As well as assignments designed to provide assurance or advisory input around specific risks, the strategy also includes: a contingency allocation, time for tracking the implementation of actions and an audit management allocation. Full details of these can be found in Appendices A and B.

## **2.3 Working with other assurance providers**

The Audit Committee is reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not, seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers, such as external audit to ensure that duplication is minimised and a suitable breadth of assurance obtained.

## 3 YOUR INTERNAL AUDIT SERVICE

Your internal audit service is provided by RSM Risk Assurance Services LLP. The team will be led by Karen Williams, supported by Chris Benn as your manager.

### 3.1 Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS). Further details of our responsibilities are set out in our internal audit charter within Appendix D.

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our Risk Assurance service line commissioned an external independent review of our internal audit services in 2011 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA) on which PSIAS is based.

The external review concluded that “the design and implementation of systems for the delivery of internal audit provides substantial assurance that the standards established by the IIA in the IPPF will be delivered in an adequate and effective manner”.

### 3.2 Conflicts of interest

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards.

## 4 AUDIT COMMITTEE REQUIREMENTS

In approving the internal audit strategy, the committee is asked to consider the following:

- Is the Audit Committee satisfied that sufficient assurances are being received within our annual plan (as set out at Appendix A) to monitor the organisation's risk profile effectively?
- Does the strategy for internal audit (as set out at Appendix B) cover the organisation's key risks as they are recognised by the Audit Committee?
- Are the areas selected for coverage this coming year appropriate?
- Is the Audit Committee content that the standards within the charter in Appendix C are appropriate to monitor the performance of internal audit?

It may be necessary to update our plan in year, should your risk profile change and different risks emerge that could benefit from internal audit input. We will ensure that management and the Audit Committee approve such any amendments to this plan.

## APPENDIX A: INTERNAL AUDIT PLAN 2016/17

Audit	Scope for Year	Assurance or advisory	Audit days	Proposed timing
<b>Risk Based Assurance</b>				
Housing Allocations and Homelessness	Compliance with policies and procedures.	Assurance	10	May 2016
IT Audit – Cyber security	We will undertake a gap analysis of the 10 areas of IT security as detailed in CESG's (the Information Security arm of GCHQ) 10 steps to cyber security framework. With the support of our specialist IT Audit team, we will review the self-assessment and the evidence in place to support the self-assessment evaluation. We will through discussion with the Council identify those areas of IT controls which require further detailed assessment (e.g. through vulnerability testing) and undertake tailored testing as required.	Assurance	12	October 2016
Business Continuity	Assurance that Council functions will continue to provide services or continue to operate.	Assurance	12	July 2016
Asset Management	TBC			February 2017
<b>Core Assurance</b>				
HR Management	Recruitment, starters, performance of staff, compliance with key policies, administration of HR records. Not to overlap with Payroll	Assurance	10	July 2016
Income activities - Telecare	Location of assets, start and end of contracts, invoicing, income recovery.	Assurance	8	May 2016
Income activities - Car Parking	Collection and recording of income received through use of car parking machines, penalty charge notices, RingGo, season permits, residents permits.	Assurance	10	May 2016
Income activities - Licensing	To ensure that all income due from licensing is collected in full and recorded in the accounts of the Council.	Assurance	10	June 2016
Procurement	Compliance with Government's Transparency Code.	Assurance	10	September 2016

Audit	Scope for Year	Assurance or advisory	Audit days	Proposed timing
Risk management	Determination of maturity of approach to risk management.	Assurance	6	March 2017
Corporate governance	Compliance with requirements in this area.	Assurance	8	March 2017
Revenues	Assurance that the control framework continues to operate as previously noted.	Assurance	8	November 2016
Benefits	Assurance that the control framework continues to operate as previously noted.	Assurance	8	September 2016
Treasury management	Assurance that the control framework continues to operate as previously noted.	Assurance	6	September 2016
Payroll	Assurance that the control framework continues to operate as previously noted.	Assurance	8	December 2016
Creditors	Assurance that the control framework continues to operate as previously noted.	Assurance	8	December 2016
Debtors	Assurance that the control framework continues to operate as previously noted.	Assurance	8	October 2016
PCI code of conduct compliance – follow up	Review of the implementation of management actions agreed following our 2015/16 review of this area.	Follow up assurance	10	January 2017
<b>Other internal audit activity</b>				
Contingency	To allow additional reviews to be undertaken in agreement with the Audit Committee or management based in changes in risk profile or assurance needs as they arise during the year.	N/A	18	As required
Follow up	To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.	Follow up Assurance	10	Quarterly
Management	This will include: <ul style="list-style-type: none"> <li>• Annual planning</li> <li>• Preparation for, and attendance at, Audit Committee</li> <li>• Regular liaison and progress updates</li> <li>• Liaison with external audit and other assurance providers</li> <li>• Preparation of the annual opinion</li> </ul>	N/A	20	Throughout the year

# APPENDIX B: INTERNAL AUDIT STRATEGY 2015/16 – 2017/18

Proposed area for coverage	Scope and Associated risk Area	2015/16	2016/17	2017/18
<b>Risk based assurance</b>				
Financial Management	<b>Medium Term Financial Strategy</b> If we fail to deliver the Medium Term Financial Strategy (MTFS), this could lead to a lack of financial resilience and a failure to deliver statutory and essential services.	✓		✓
Project Management	<b>Property Project</b> If we fail to deliver our property projects, this could have a significant impact on delivery of the MTFS and therefore affect our ability to deliver statutory and essential services.			✓
Contract Management		✓		
Welfare Reform – Implementation of Universal Credit Homelessness	<b>Welfare Reform</b> There is a risk that multiple central government welfare reform changes could impact adversely on Mole Valley residents and put additional pressure on all public services.	✓	✓	
Health and safety management	<b>Corporate Health and Safety</b> If we fail to have good Health and Safety arrangements in place, this could lead to loss of service and / or preventable accidents to staff or members of public.	✓		
IT Audit	<b>IT systems</b> The Council needs to make sure that its IT systems are robust and enable the organisation to deliver the services for which it is responsible. If we fail to do this, there could be a major breakdown and disruption of systems that leads to an inability to deliver key services.	✓	✓	✓
Information Governance/Data Retention	<b>Data Protection/Information Governance</b> If we fail to effectively act on and embed standards and procedures that enable us to do this, this could lead to a loss of public trust and financial penalties to the organisation.	✓		✓
Business Continuity	<b>Business Continuity</b> The council needs to make sure that there are plans to prepare and effectively respond to a known event or major incident results to ensure key services can be delivered.		✓	

Proposed area for coverage	Scope and Associated risk Area	2015/16	2016/17	2017/18
<b>Core Assurance</b>				
HR Management	Review of compliance with legislation and policies and procedures.		✓	
Income from s106 agreement and implementation of the Community Infrastructure Levy.	To review compliance with fund requirements and to ensure that record keeping is accurate	✓		
Housing adaptations and disabled facilities grants	The ensure compliance with scheme requirements and tendering of services.	✓		
Planning and development	Compliance with legislation and policy.			✓
Income activities: - Telecare - Car Parking - Licensing	To ensure completeness of income due to the Council.		✓ ✓ ✓	
Property maintenance	To ensure that the buildings owned by the Council are maintained to ensure sound repair and compliance with health and safety.			✓
Emergency planning and civil contingency arrangements	Compliance with requirements in this area.			✓
Data quality	To review the supporting records to ensure that data used for management reporting can be relied upon.	✓		✓
Procurement	Review of practices to ensure compliance with the Transparency code.		✓	
Value for money review	To review a key area of Council services for value for money in service delivery.	✓		✓
Risk management	Core review	✓	✓	✓
Corporate governance	Core review	✓	✓	✓
Revenues	Core financial review	✓	✓	✓
Benefits	Core financial review	✓	✓	✓
Treasury management	• Core financial review		✓	
Main accounting	• Core financial review	✓		✓
Payroll	• Core financial review	✓	✓	✓
Creditors	• Core financial review		✓	
Capital accounting	• Core financial review	✓		

Proposed area for cover age	Scope and Associated risk Area	2015/16	2016/17	2017/18
Debtors	<ul style="list-style-type: none"> <li>Core financial review</li> </ul>		✓	
PCI follow up	<ul style="list-style-type: none"> <li>Follow up assurance</li> </ul>		✓	
<b>Other internal audit activity</b>				
Contingency	To allow additional reviews to be undertaken in agreement with the Audit Committee or management based in changes in risk profile or assurance needs as they arise during the year.	✓	✓	✓
Follow up	To provide assurance on action taken to address recommendations previously agreed by management.	✓	✓	✓
Management	This will include: <ul style="list-style-type: none"> <li>Annual planning</li> <li>Preparation for, and attendance at, Audit Committee</li> <li>Regular liaison and progress updates</li> <li>Liaison with external audit and other assurance providers</li> <li>Preparation of the annual opinion</li> </ul>	✓	✓	✓

# APPENDIX C: INTERNAL AUDIT CHARTER

## Need for the charter

This charter establishes the purpose, authority and responsibilities for the internal audit service for Mole Valley District Council. The establishment of a charter is a requirement of the Public Sector Internal Audit Standards (PSIAS) and approval of the charter is the responsibility of the Audit Committee.

The internal audit service is provided by RSM Risk Assurance Services LLP ("RSM"). Your key internal audit contacts are as follows:

	Director	Manager
Name	Karen Williams	Chris Benn
Telephone	07818002464	07528970127
Email address	<a href="mailto:Karen.williams@rsmuk.com">Karen.williams@rsmuk.com</a>	<a href="mailto:Chris.benn@rsmuk.com">Chris.benn@rsmuk.com</a>

We plan and perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, focusing in particular on how these arrangements help you to achieve its objectives.

An overview of our client care standards are included at Appendix D of the internal audit strategy plan for 2016/17.

## Role and definition of internal auditing

"Internal Audit 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 introducing a systematic, disciplined approach in order to evaluate and improve the effectiveness of risk management, control, and governance processes".

### Definition of Internal Auditing, Institute of Internal Auditors

Internal audit is a key part of the assurance cycle for your organisation and, if used appropriately, can assist in informing and updating the risk profile of the organisation.

## Independence and ethics

To provide for the independence of Internal Audit, its personnel report directly to Karen Williams (acting as your head of internal audit). The independence of RSM is assured by the internal audit service reporting to the Chief Executive, the Director Corporate with further reporting lines to the Financial Services Manager.

The head of internal audit has unrestricted access to the Chair of Audit Committee to whom all significant concerns relating to the adequacy and effectiveness of risk management activities, internal control and governance are reported.

Conflicts of interest may arise where RSM provides services other than internal audit to Mole Valley District Council. Steps will be taken to avoid or manage transparently and openly such conflicts of interest so that there is no real or perceived threat or impairment to independence in providing the internal audit service. If a potential conflict arises through the provision of other services, disclosure will be reported to the Audit Committee. The nature of the

disclosure will depend upon the potential impairment and it is important that our role does not appear to be compromised in reporting the matter to the Audit Committee. Equally we do not want the organisation to be deprived of wider RSM expertise and will therefore raise awareness without compromising our independence.

## Responsibilities

In providing your outsourced internal audit service, RSM has a responsibility to:

- Develop a flexible and risk based internal audit strategy with more detailed annual audit plans. The plan will be submitted to the Audit Committee for review and approval each year before work commences on delivery of that plan.
- Implement the audit plan as approved, including any additional tasks requested by management and the Audit Committee.
- Ensure the internal audit team consists of professional audit staff with sufficient knowledge, skills, and experience.
- Establish a Quality Assurance and Improvement Program to ensure the quality and effective operation of internal audit activities.
- Perform advisory activities where appropriate, beyond internal audit's assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design and training.
- Bring a systematic disciplined approach to evaluate and report on the effectiveness of risk management, internal control and governance processes.
- Highlight control weaknesses and required associated improvements together with corrective action recommended to management based on an acceptable and practicable timeframe.
- Undertake follow up reviews to ensure management has implemented agreed internal control improvements within specified and agreed timeframes.
- Provide a list of significant measurement goals and results to the Audit Committee to demonstrate the performance of the internal audit service.
- Liaise with the external auditor for the purpose of providing optimal audit coverage to the organisation.

## Authority

The internal audit team is authorised to:

- Have unrestricted access to all functions, records, property and personnel which it considers necessary to fulfil its function.
- Have full and free access to the Audit Committee.
- Allocate resources, set timeframes, define review areas, develop scopes of work and apply techniques to accomplish the overall internal audit objectives.
- Obtain the required assistance from personnel within the organisation where audits will be performed, including other specialised services from within or outside the organisation.

The head of internal audit and internal audit staff are not authorised to:

- Perform any operational duties associated with the organisation.
- Initiate or approve accounting transactions on behalf of the organisation.
- Direct the activities of any employee not employed by RSM unless specifically seconded to internal audit.

## Key performance indicators (KPIs)

In delivering our services we require full cooperation from key stakeholders and relevant business areas to ensure a smooth delivery of the plan. We proposed the following KPIs for monitoring the delivery of the internal audit service:

Delivery	Quality
Audits commenced in line with original timescales agreed in the internal audit plan.	Conformance with the Public Sector Internal Audit Standards.
Draft reports issued within 10 working days of debrief meeting.	Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit.
Final report issued within 3 days from receipt of management responses.	Response time for all general enquiries for assistance is completed within 2 working days.
Completion of internal audit plan by the end of the financial year.	Response to emergencies such as concerns of potential fraud with 1 working day.

## Reporting

An assignment report will be issued following each internal audit assignment. The report will be issued in draft for comment by management, and then issued as a final report to management, with the executive summary being provided to the Audit Committee. The final report will contain an action plan agreed with management to address any weaknesses identified by internal audit.

The internal audit service will issue progress reports to the Audit Committee and management summarising outcomes of audit activities, including follow up reviews.

As your internal audit provider, the assignment opinions that RSM provides the organisation during the year are part of the framework of assurances that assist the board in taking decisions and managing its risks.

As the provider of the internal audit service we are required to provide an annual opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the board is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The annual opinion will be provided to the organisation by RSM Risk Assurance Services LLP at the financial year end. The results of internal audit reviews, and the annual opinion, should be used by management and the Board to inform the organisation's annual governance statement.

## **Data protection**

Internal audit files need to include sufficient, reliable, relevant and useful evidence in order to support our findings and conclusions. Personal data is not shared with unauthorised persons unless there is a valid and lawful requirement to do so. We are authorised as providers of internal audit services to our clients (through the firm's Terms of Business and our engagement letter) to have access to all necessary documentation from our clients needed to carry out our duties.

Personal data is not shared outside of RSM. The only exception would be where there is information on an internal audit file that external auditors have access to as part of their review of internal audit work or where the firm has a legal or ethical obligation to do so (such as providing information to support a fraud investigation based on internal audit findings).

RSM has a Data Protection Policy in place that requires compliance by all of our employees. Non-compliance will be treated as gross misconduct.

## **Fraud**

The Audit Committee recognises that management is responsible for controls to reasonably prevent and detect fraud. Furthermore, the Audit Committee recognises that internal audit is not responsible for identifying fraud; however internal audit will assess the risk of fraud and be aware of the risk of fraud when planning and undertaking any internal audit work.

## **Approval of the internal audit charter**

By approving this document, the internal audit strategy, the Audit Committee is also approving the internal audit charter.

## APPENDIX E: OUR CLIENT CARE STANDARDS

- Discussions with senior staff at the client take place to confirm the scope six weeks before the agreed audit start date
- Key information such as: the draft assignment planning sheet are issued by RSM to the key auditee four weeks before the agreed start date
- The lead auditor to contact the client to confirm logistical arrangements two weeks before the agreed start date.
- Fieldwork takes place on agreed dates with key issues flagged up immediately.
- A debrief meeting will be held with audit sponsor at the end of fieldwork or within a reasonable time frame.
- Two weeks after a debrief meeting a draft report will be issued by RSM to the agreed distribution list.
- Management responses to the draft report should be submitted to RSM.
- Within three days of receipt of client responses the final report will be issued by RSM to the assignment sponsor and any other agreed recipients of the report.

## FOR FURTHER INFORMATION CONTACT

Name

Email address

Telephone number

**rsmuk.com**

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