

Thurrock Council

Internal Audit Protocol 2019

December 2019

To be presented to Standards and Audit Committee on the 19th December 2019

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Distribution

Copies of this Protocol will be provided to all members of the Standards & Audit Committee, Chief Executive and Directors Board, Assistant Directors and all staff by being made available on the Council's intranet site.

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Introduction

Thurrock Council's Commitment to Good Governance

Thurrock Council is responsible for significant expenditure of public money and places great importance on maintaining the highest standards of probity, financial management and accountability.

External and Internal Audit assist in providing the Council with independent assurance that assets and resources are properly applied and used wisely.

This Protocol explains how our audit arrangements operate and sets out the responsibilities of Members and senior management for ensuring that the audit requirements of the Council are met and recommendations made are fully implemented.

For the purposes of this Protocol, the Chief Internal Auditor fulfils the role of the Council's Head of Internal Audit (HoIA) and is referred to as such throughout the document.

Responsibilities Explained

Cabinet Members

Cabinet must ensure the Council's audit arrangements are effectively applied. Cabinet do this through:

- The Cabinet Portfolio Member with responsibility for Central Services and Communities.
- The Council's Standards & Audit Committee.
- Approving the Council's Action Plan arising from the External Auditor's Annual Audit Letter, after this has been reviewed by the Standards & Audit Committee.

Senior Management

Directors, Assistant Directors and individual managers are responsible for exercising proper internal control over their areas of responsibility.

Copies of External and Internal Audit reports referring to departmental issues will be sent to and monitored by individual Directors and Assistant Directors.

Those reports referring to corporate issues, or which could have a negative impact on the reputation of the Council will be reported to Directors Board for initial consideration before being referred to whichever working group or individual the Board deems to be most appropriate.

Where a Red assurance report is issued, the relevant Director or Assistant Director will be responsible for writing a covering report and presenting the report to the next meeting of the Standards & Audit Committee. Directors will also be responsible for discussing the contents of these reports and the actions they are taking to address the issues raised, at the regular meetings they hold with their relevant portfolio holder.

Where an Amber/Red assurance report is issued, the attendance of a relevant Director/Assistant Director/senior manager will be determined following the pre-meeting with the Chair of the Standards & Audit Committee, which is held prior to the committee meeting.

Standards & Audit Committee

The purpose of the Standards & Audit Committee is to provide independent monitoring of the adequacy of the risk management framework, as well as independent scrutiny of the authority's financial and non-financial performance. The Committee also oversees the financial reporting process. This assists the Committee in focussing External and Internal Audit resources to ensure that the Council's main risks are independently reviewed. The Committee will do this by:

- Reviewing the External and Internal Audit annual plans prior to these being formally approved.
- Ensuring the Internal Audit function is properly resourced.
- Confirming effective co-ordination between the External Audit provider and Internal Audit.
- Confirming that the Audit Protocol is being properly applied.
- Ensuring that the Council's risk management strategy is fully operational and reviewing the Risk Register on a periodic basis.

The Standards & Audit Committee will also keep under review the operation of the Council's financial and information systems. It will do this by:

- Receiving and considering the External Auditor's Annual Audit Letter which will incorporate the Council's responses and recommend the management action plan to Cabinet for formal approval.
- Monitoring implementation of management action plans.
- Receiving and considering Internal Audit's annual assurance report which comments on the adequacy and effectiveness of internal control systems within the Council.
- Considering Red and Amber/Red assurance reports issued by Internal Audit to relevant Directors, together with management responses and monitor the implementation of agreed recommendations.
- Promoting an anti-fraud culture.

The Council takes audit matters very seriously. If the Standards & Audit Committee has specific concerns that important issues raised by External or Internal Audit are not being addressed, including the implementation of agreed recommendations, the Standards & Audit Committee will refer this formally to the Chief Executive, Monitoring Officer, Section 151 Officer or appropriate Director/Assistant Director for an explanation.

External Audit

The Council's External Auditor is required by the Code of Audit Practice to make an independent assessment about:

- The Council's Statement of Accounts.
- Corporate Governance.
- Performance Management Arrangements.

External Audit provides:

- A statement that the audit of the accounts has been completed in accordance with statutory requirements.
- A conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.
- Where appropriate, a report dealing with matters that the auditor considers to be in the public interest.
- Progress reports on matters arising from specific aspects of the Auditors' work.
- An Annual Audit Letter, addressed to the Council, which summarises the most important matters arising from the audit work completed over the year. This will be considered by Standards & Audit Committee, who will monitor progress against key recommendations, through the reporting process. The results of the Annual Audit Letter are published and made available through the council's website.

The annual Internal Audit Plan is discussed in detail with External Audit. External Audit also receives copies of audit reviews of the key financial systems.

Internal Audit

Under the Accounts and Audit Regulations 2015, the Council is required to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.

Internal Audit provides an independent appraisal function which reviews the internal control arrangements of the Council, helps to ensure resources are used wisely and value for money is secured.

Internal Audit provides:

- A progress report detailing the audits that have been completed, the level of assurance provided and a summary of the key findings and recommendations.
- The HoIA's Annual Report on the adequacy of financial and non-financial controls.
- A mechanism for following up on recommendations to determine the status of their implementation.

The work of Internal Audit is targeted through a three year internal audit strategy and a detailed annual plan.

Internal Audit consults with Directors, Assistant Directors and other relevant senior managers on the annual plan and review progress with the Section 151 Officer on a regular basis. Internal Audit may also attend Directorate Management Team (DMT) meetings to provide updates. The draft Internal Audit Annual Plan is reviewed and agreed by Directors Board before being submitted to the Standards & Audit Committee each year.

Assignment Planning Stage

For each audit review, an audit brief will be prepared, discussed, agreed and signed off (manually or electronically) by the relevant Director/Assistant Director/senior manager and the HoIA and copied in to the service manager responsible for the area being reviewed. This will set out the terms of reference of the review, the scope of the work being undertaken and any limitations to the scope. This provides the auditor with the authority to liaise directly with the manager to undertake the fieldwork stage of the review process.

Debrief Meeting

On completion of the fieldwork, the auditor will arrange a debrief meeting and prepare a first draft report and/or debrief document detailing their findings and recommendations, which will be reviewed by the HoIA. Dependent on the assurance level provided as a result of this initial assessment, the following attendees will be invited to the debrief meeting:

- Green assurance opinion – relevant service manager(s) and auditor
- Amber/Green assurance opinion – relevant service manager(s) and auditor
- Amber/Red assurance opinion – relevant Assistant Director/senior manager, service manager(s), HoIA and auditor.
- Red assurance opinion – relevant Director, Assistant Director, service manager(s), HoIA and auditor.

During the debrief meeting, Internal Audit will discuss their findings with management and obtain responses to the actions required to address any recommendations, agree implementation dates and allocate responsibility to relevant officers. These will be recorded on the action plan within the draft plan or debrief document, which is then signed off by the relevant officer. Debrief meetings will be arranged within 10 days of completion of the fieldwork for Green, Amber/Green and Amber/Red reports and 15 days for Red reports.

Draft Reports

Draft reports will be issued on major assignments and all audit recommendations will be discussed and agreed before the issue of the final report. An action plan will be included for each audit report, incorporating agreed implementation dates and responsible officers against each of the recommendations made.

- Green and Amber/Green Assurance Opinions

In respect of Green and Amber/Green assurance reports, the final draft report will be issued to the relevant Assistant Director and/or manager(s) within 10 working days of the debrief meeting taking place so they can check the report is factually accurate and that the action plan reflects the actions and timeframes agreed during the debrief process.

- Amber/Red Assurance Opinions

For Amber/Red assurance reports, the final draft will generally be issued within 10 working days of the debrief meeting taking place. However, dependant on the potential impact of the recommendations made, a second draft may be required and presented to Directors' Board.

- Red Reports

As soon as Internal Audit identifies circumstances likely to lead to the issue of a Red assurance audit opinion, they will raise their concerns with the relevant Director, Assistant Director and the Section 151 Officer. A debrief meeting will then be arranged with the Director, Assistant Director and Manager within 10 days and a second draft report will be issued within 5 days of this debrief meeting.

Once agreed, a copy of the second draft will be presented and discussed at Directors' Board.

For Red reports, this timeframe may be extended at the request of the Directors' Board.

Final Reports

- Green, Amber/Green and Amber/Red Assurance Opinions

For Green, Amber/Green and Amber/Red reports, a final report will be issued within 5 days of getting the responses back. These reports will be presented to the Standards & Audit Committee as part of a standard progress report in line with the Committee's agreed work programme. For Green and Amber/Green reports, this will be a summary of the main findings. For Amber/Red reports, the management summary and action plan (including management responses) will be provided in detail and an update on progress to date will be sought from a relevant senior manager, Assistant Director or Director and will be included within the internal audit progress report for the next Standards & Audit Committee.

- Red Reports

After the draft Red report has been discussed at Directors Board, the final report will be issued within 5 working days, unless further work is requested. A Red assurance final report will then be presented to the next Standards & Audit Committee meeting as a separate agenda item. This will require the relevant Director/Assistant Director to complete and present the covering report and provide members of the committee with an update on their responses to the implementation of recommendations and report on any actions taken, or being taken, to address the concerns raised within the report.

Follow up

Management assurances will be sought on the status of recommendations within 1 month of their implementation date. Evidence will be sought for all recommendations categorised as high risk. For medium and low risk recommendations, management responses will be accepted without the need to provide further evidence. If high risk recommendations relating to key controls have not been implemented within the agreed timescale, this will be reported, in the first instance, to the Section 151 Officer who will raise their concerns with the relevant Director.

Where a Red assurance report has been issued, the area will be revisited as part of the following years' annual plan.

Advisory or Consultancy Reviews

Where Internal Audit undertakes work of an advisory or consultancy nature, an assurance opinion will not be provided. However, recommendations will still be made and an action plan agreed with senior management. These reviews will be reported to the Standards & Audit Committee as part of the standard progress report.

Escalation Process

Management failure to meet the deadlines detailed within this Protocol will result in an escalation to the relevant Assistant Director and/or Director. If no response is received within a further 10 days, reports may be finalised without management comment. This will be reported to the Section 151 Officer and the Standards & Audit Committee, which could result in the Director/Assistant Director being called to the meeting at which the report is being presented to explain the reason for any delays.

Joint working between External and Internal Audit

External and Internal Audit work closely together to achieve their respective objectives and agree audit plans. This avoids any duplication of effort which is efficient and cost effective. It enables the External Auditor to place some reliance on the work of Internal Audit, particularly regarding the arrangements for ensuring the adequacy of systems.

Specific joint initiatives include:

- Annual audit planning meetings.
- Meetings to discuss testing strategies around key financial systems.
- Sharing information about fraud.

Regular meetings take place to discuss matters of mutual interest and access is provided to audit files, system notes and working papers.