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| <b>NAME OF COMMITTEE</b> | <b>Audit Committee</b>  |
| <b>DATE</b>              | <b>15<sup>th</sup> April 2014</b>                             |
| <b>REPORT TITLE</b>      | <b>Internal Audit:<br/>Charter &amp; Strategy – 2014/2015</b> |
| <b>JOINT REPORT OF</b>   | <b>Chief Internal Auditor and<br/>S.151 Officer</b>           |
| <b>WARDS AFFECTED</b>    | <b>All/Corporate</b>  |

**Summary of report:**

The purpose of this report is to allow the Audit Committee to review and comment upon the Internal Audit Charter and Strategy for 2014/15.

The standards for proper practice for internal audit are contained in the Public Sector Internal Audit Standards (Institute of Internal Auditors and CIPFA). The Chief Internal Auditor maintains an Audit Manual which reflects these standards and sets out the procedures expected of the Council's Internal Audit team.

Both the PSIAS and Audit Manual require that the Charter and Audit Strategy are presented to the Audit Committee for review and approval. These documents are discussed in the report with the Charter attached at Appendix A and the linked Audit Strategy at Appendix B.

**Financial implications:**

None, within the existing budget for internal audit.

**RECOMMENDATIONS:**

It is recommended that the Audit Committee review and approve the Internal Audit Charter and Strategy 2014/15 and discuss the proposals for independent external assessment as required by the United Kingdom Public Sector Internal Audit Standards (PSIAS).

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Lisa Buckle, S.151 Officer and head of Finance & Audit

## 1. BACKGROUND

- 1.1 The Accounts and Audit Regulations, 2011 state that:  
*"A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices."*
- 1.2 For the purposes of the Regulations, proper practice is that contained in the Public Sector Internal Audit Standards (Institute of Internal Auditors (IIA) and CIPFA- Applying the International Standards).
- 1.3 The Chief Internal Auditor maintains an Audit Manual which sets out the standards and procedures expected of the team and this has been updated to reflect the requirements of the Public Sector Internal Audit Standards. It is not intended to present the latest version, Audit Manual 2014, to the Audit Committee because of the detailed nature of the document.
- 1.4 However both the Public Sector Internal Audit Standards and Audit Manual require that the Charter and Audit Strategy are presented to the Audit Committee for review and approval.

### United Kingdom Public Sector Internal Audit Standards (PSIAS)

- 1.5 2013 saw the introduction of the new United Kingdom Public Sector Internal Audit Standards (PSIAS) that will apply across the whole of the public sector. The PSIAS are based on the Institute of Internal Auditors (IIA) Standards, with a limited number of additional requirements and interpretations that allow the PSIAS to be adapted for the public sector.
- 1.6 The main changes are:
  - Replacing the Terms of Reference (ToR) with a 'Charter';
  - The mandatory nature of the PSIAS;
  - Defining of the 'Board' in relation to internal audit;
  - Including the role of the Monitoring Officer and Head of Paid Service in Internal Audit;
  - Requirement for the Chief Audit Executive (for South Hams the Chief Internal Auditor) to be appropriately qualified;
  - Use of Computer Assisted Audit Techniques (CAATs) – to be part of the planned Counter Fraud work for 2014/15; and
  - Quality assurance programme to include an external assessment. Only when this is completed can reports carry the phrase 'conducted in conformance with PSIAS'.

### *Proposals for an External Assessment*

- 1.7 In respect of the final bullet point above, the PSIAS state that any quality assurance external assessment must be discussed with the Audit Committee in relation to the form of the external assessment and the qualifications and independence of any proposed assessor.

- 1.8 Several of the Devon internal audit teams have approached a former Chief Internal Auditor and who is now a self employed consultant to carry out a validation of a self assessment, test checks and report on findings for a fee below £500. As the PSIAS require, this person is able to demonstrate competence in the professional practice of internal auditing and external assessment, and is a CIPFA qualified accountant.
- 1.9 An independent assessor, the PSIAS state, means not having a real or apparent conflict of interest and not being part of, or under the control of, the organisation to which the internal activity applies. This too applies to the person identified.
- 1.10 It is our intention to do the same, provided that the Audit Committee are content with this approach.

## **2. INTERNAL AUDIT: CHARTER - Appendix A**

2.1 The 2014/15 Charter has been updated having regard to the IIA's 2013 document Applying the IIA International Standards to the UK Public Sector, and the CIPFA equivalent 'Local Government Application Note for the UK Public Sector Internal Audit Standards'.

2.2 The Charter reflects the following:

- Statutory Requirements;
- Internal Audit's Purpose, Authority and Responsibility;
- Ethics and Independence;
- Audit Management;
- Scope of Internal Audit's Work;
- Audit Reporting;
- Audit Committee;
- Quality Assurance and Improvement; and
- Non Conformance and Review

## **3. INTERNAL AUDIT STRATEGY 2014/15 - Appendix B**

3.1 The Strategy is a high-level statement of how the internal audit service will be delivered and developed in accordance with the Charter and how it links to the organisational objectives and priorities.

3.2 It should be kept up to date with the organisation and its changing priorities and communicate the contribution that Internal Audit makes to the organisation and includes:

- Internal Audit objectives and outcomes;
- How the Chief Internal Auditor will form and evidence his or her opinion on the governance, risk and control framework to support the system of Internal Control and Annual Governance Statement;
- How Internal Audit's work will identify and address significant local and national issues and risks;

- How the service will be provided, i.e. internally, externally, or a mix of the two; and
- The resources and skills required to deliver the Strategy.

3.3 The Charter says that the Strategy should be approved, but not directed, by the Audit Committee.

#### 4. LEGAL IMPLICATIONS

4.1 Accounts and Audit Regulations 2011.

#### 5. FINANCIAL IMPLICATIONS

5.1 None, within existing budgets.

#### 6. RISK MANAGEMENT

6.1 The Risk Management implications are shown at the end of this report in the Strategic Risks Template, following these other considerations.

|   |  |
|---|--|
| <b>Corporate priorities engaged:</b>                | All  |
| <b>Statutory powers:</b>                            | Section 111 Local Government Act 1972; and<br>Accounts and Audit Regulations 2011.   |
| <b>Considerations of equality and human rights:</b> | No specific equality and human rights issues arising from this report.   |
| <b>Biodiversity considerations:</b>                 | No specific biodiversity issues arising from this report.  |
| <b>Sustainability considerations:</b>               | No specific sustainability issues arising from this report.  |
| <b>Crime and disorder implications:</b>             | No specific crime and disorder issues arising from this report.  |
| <b>Background papers:</b>                           | IIA 2013 document - Applying the IIA International Standards to the UK Public Sector;<br>CIPFA document - Local Government Application Note for the UK Public Sector Internal Audit Standards 2013;<br>West Devon Borough Council Internal Audit Manual - 2014 |
| <b>Appendices attached:</b>                         | Appendix A – Internal Audit Charter;<br>Appendix B – Internal Audit Strategy 2014/15   |

## STRATEGIC RISKS TEMPLATE

| No | Risk Title  | Risk/Opportunity Description  | Inherent risk status       |                            |                                    |   | Mitigating & Management actions   | Ownership              |
|----|---|---|----------------------------|----------------------------|------------------------------------|---|---|------------------------|
|    |   |   | Impact of negative outcome | Chance of negative outcome | Risk score and direction of travel |   |   |                        |
| 1  | Requirements to provide an adequate and effective system of internal audit. | Audit's objectives and responsibilities may not reflect the Accounts and Audit Regulations requirements of providing an adequate and effective system of internal audit in accordance with the proper practices.  | 2                          | 2                          | 4                                  | ↔ | <p>An Audit Charter and Manual documenting the audit responsibilities and processes are maintained and reflect the Public Sector Internal Audit Standards which set out the requirements that internal audit is expected to achieve.</p> <p>The Internal Audit Strategy presented to the Audit Committee annually is a high level statement of how the internal audit service will be delivered in accordance with the Charter.</p> | Chief Internal Auditor |
| 2  | Opportunity   | To provide an adequate and effective system of internal audit operating in accordance with the proper practices contributes to the overall control environment (system of internal control and governance framework) and the Annual Governance Statement. | 2                          | 2                          | 4                                  | ↔ | <p>An internal audit plan considering all areas of risk to the Council contributes to the overall governance, risk and control framework and the required Annual Governance Statement.</p>  | Chief Internal Auditor |

Direction of travel symbols ↓ ↑ ↔



**West Devon Borough Council**

**Internal Audit**

**Charter 2014/2015**

## **West Devon Borough Council** **Internal Audit Charter 2014/15**

### **Statutory Requirements**

The need for an Internal Audit Service is implied by the Local Government Act, 1972 (Section 151) which requires that:

*"...every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."*

In the case of West Devon Borough Council, the Head of Finance & Audit is the Section 151 Officer. One of the ways this duty is exercised is through the work of Internal Audit.

Specifically, the Accounts and Audit Regulations, 2011 state that:

*"A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices."*

For the purposes of the Regulations, proper practice is that contained in the United Kingdom Public Sector Internal Audit Standards (PSIAS) and adherence to these standards is mandatory.

### **Internal Audit's Purpose, Authority and Responsibility**

The Institute of Internal Auditor's 2013 document 'Applying the IIA International Standards to the UK Public Sector' defines internal audit as '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 bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'

To meet this definition, Internal Audit undertakes examinations of systems in order to:

- establish the strengths and weaknesses in each system following a formal risk appraisal;
- test the controls to establish whether they are reliable or not; and
- report to management on the findings of such reviews in order to allow corrective action to be taken.

It is the responsibility of Internal Audit to review, appraise and report upon:

- the soundness, adequacy and application of internal control, risk management and corporate governance;
- the extent to which the Council's assets and interests are accounted for and safeguarded from losses of all kinds arising from:

## **West Devon Borough Council** **Internal Audit Charter 2014/15**

- a) fraud and other offences;
  - b) error; and
  - c) poor housekeeping, i.e. reviewing economy, efficiency and effectiveness with which resources are employed.
- 
- the completeness, suitability, reliability and integrity of financial and other management information developed within the organisation (Data Quality);
  - the governance systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by management of the Council or externally. These include in particular the Council's Contract and Financial Procedure Rules;
  - risk management; and
  - whether operations are being carried out as planned and objectives and goals are being met.

### **Right of Access**

Internal Audit will be given right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. This right will be established in the Council's Financial Procedure Rules within the Constitution.

## **Ethics and Independence**

Internal Audit should be independent of the activities that it audits.

### **Organisational Independence**

The status of Internal Audit should enable it to function effectively. The support of the Council is essential and recognition of the independence of Internal Audit is fundamental to its effectiveness.

The Chief Internal Auditor should have direct access to and freedom to report in his or her own name and without fear or favour to, all officers and members and particularly to those charged with governance (the Audit Committee). In the event of the necessity arising, the facility also exists for Internal Audit to have direct access to the Head of Paid Service, the S.151 Officer and the Chair of the Executive and/or the Audit Committee.

The Council should make arrangements for Internal Audit to have adequate budgetary resources to maintain organisational independence. Any delegation of budgets for Internal Audit to service level must not compromise the scope of Internal Audit or the ability of Internal Audit to provide an annual opinion to the Audit Committee as part of the assurance for the Annual Governance Statement.

### **Status of the Chief Internal Auditor**



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The position of the Chief Internal Auditor in the management structure should reflect the influence he or she has on the control environment and he or she should not report to or be managed at a lower organisational level than the corporate management team.

The Chief Internal Auditor should have sufficient status to facilitate the effective discussion of audit strategies, audit plans, audit reports and action plans with senior management and members of the Council.

### **Ethics, and Independence of Auditors**

Each Internal Auditor must adhere to the PSIAS Code of Ethics and perform their work with honesty, diligence and responsibility. They:

- must have an objective attitude of mind and be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality;
- notwithstanding employment by the Council, must be free from any conflict of interest arising from any professional or personal relationships or from any pecuniary or other interests in an activity or organisation which is subject to audit;
- must be free from undue influences which either restrict or modify the scope or conduct of their work or significantly affect judgment as to the content of the internal audit report; and
- must not allow their objectivity to be impaired by auditing an activity for which they have or have had responsibility.

Should any of the above situations arise the Chief Internal Auditor should immediately be informed. A record of any interest shall be recorded in the Council's register of such interests. The Chief Internal Auditor shall, thereafter, assess the need to arrange for alternative arrangements to carry out the assignment.

In the exceptional circumstances that an internal audit contractor is used, steps will be taken to avoid or manage any perceived conflicts of interest e.g. using a contractor who also provides non internal audit services to the organisation will be either avoided or managed accordingly. A record of any interest shall be recorded in the Council's register of such interests.

## **Audit Management**

The PSIAS describe the role of the chief audit executive:

For the Council the chief audit executive is the Chief Internal Auditor, who will:

- be appropriately qualified;

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- determine the priorities of, deliver and manage the Council's internal audit service through a risk based annual audit plan;
- produce a Strategy to explain how the service will be delivered and reflect the resources and skills required by the Chief Internal Auditor and auditors and how these have been assessed;
- regularly liaise with the Council's external auditors to ensure that scarce audit resources are used effectively;
- include in the plan the approach to using other sources of assurance if appropriate;
- be accountable, report and build a relationship with the Council's Audit Committee and S.151 Officer; and
- monitor and report upon the effectiveness of the service delivered and compliance with professional and ethical standards.

The Chief Internal Auditor is required to give an annual audit opinion on the governance, risk and control framework based on the audit work done.

The Chief Internal Auditor should also have the opportunity for free and unfettered access to the Head of Paid Service. To ensure the independence of the Chief Internal Auditor, performance assessments should be countersigned by the Head of Paid Service and feedback sought from the Chairman of the Audit Committee.

In addition the Chief Internal Auditor will meet periodically with the Monitoring Officer and S.151 Officer to discuss issues that may impact on the Council's governance, risk and control framework and agree any action required.

### **The Scope of Internal Audit's Work**

Management has the responsibility to establish and assess risk and internal control so that its activities are conducted in an efficient and well ordered manner. Internal control comprises the whole system of procedures, both financial and otherwise, which are established by management to:

- safeguard its assets;
- ensure reliability of records;
- promote operational efficiency; and
- monitor adherence to policies and directives.

Internal Audit is an element of internal control, and its remit includes the entire control environment and governance framework.

If the Chief Internal Auditor or the Audit Committee considers that the level of audit resources or the Charter in any way limit the scope of Internal Audit, or prejudice the ability of Internal Audit to deliver a service consistent with the definition of internal audit, they should advise the Council accordingly.

The scope of audit work extends to services provided through partnership arrangements.

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The Chief Internal Auditor will decide, in consultation with all parties, whether Internal Audit staff conduct the work to derive the required assurance themselves or rely on the assurances provided by other auditors. Where necessary, the Chief Internal Auditor will agree appropriate access rights in order to obtain the necessary assurances.

### **Audit Planning**

Internal audit work must be adequately planned, controlled and recorded in order to achieve the agreed objectives, to establish audit priorities and to ensure the effective use of audit resources.

The Chief Internal Auditor will prepare a risk-based audit plan designed to implement the Audit Strategy.

In preparing the plan, the Chief Internal Auditor should take account of the adequacy and outcomes of the organisation's governance, risk management, performance management and other assurance processes. Where the outputs from those processes are not judged to be sufficiently reliable, the Chief Internal Auditor should undertake his or her own risk assessment and consult stakeholders on the draft plan and revise the plan if appropriate.

Internal Audit plans will, in so far as is practicable, link back to the Council's corporate objectives, be coordinated with other internal review programmes and assurance streams, and be communicated to the senior management team and Audit Committee.

### **Other Work - Consultancy**

Internal Audit may also, where the resources and appropriate skills allow, provide additional services, including fraud-related and consultancy work. These services apply the professional skills of Internal Audit through a systematic and disciplined approach in line with the principles of the Council's Internal Audit Manual and may contribute to the opinion that Internal Audit provides on the governance, risk and control framework.

The Chief Internal Auditor must have regard to the impact on the approved audit plan and any potential conflicts of interest. The S.151 Officer must be informed and agree that such services are to be provided. Significant additional consultancy services not already included in the Audit Plan must also be approved by the Audit Committee.

### **Fraud and Corruption**

It is management's responsibility to maintain the internal control system and to ensure that the organisation's resources are properly applied in the manner and

**West Devon Borough Council**  
**Internal Audit Charter 2014/15**

on the activities intended. This includes responsibility for managing the risk of fraud and other illegal acts and informing the Chief Internal Auditor when fraud is suspected or identified.

The Chief Internal Auditor will feed such information into the audit team's work programme and the opinion on the governance, risk and control framework as appropriate. Internal Audit shall have regard to the possibility of such malpractice during their work and shall seek to identify serious defects in internal control, which might permit the occurrence of such an event.

However, Internal Audit has no responsibility for the prevention of fraud except for providing a counter fraud resource within the audit plan. Audit procedures cannot guarantee fraud or corruption will be detected.

Internal Audit will also act upon reports issued to it via the Council's Confidential Reporting (Whistleblowing) Policy.

Internal Audit shall upon discovery or upon gaining firm evidence, report reasonable suspicions to the appropriate level of management. The Council's Anti Fraud, Corruption and Bribery Policy and Strategy & related response plan requires that any suspected fraud or irregularity is reported to the Head of Finance & Audit for further investigation, and to the Monitoring Officer.

Once Internal Audit has completed its investigation it is management's responsibility, through reference if necessary to the Code of Conduct, to determine what further level of action to take and to ensure that controls are strengthened.

The framework for Internal Audit's involvement in fraud investigation and prosecution is set out in the Council's approved Anti Fraud, Corruption and Bribery Policy and Strategy.

**Audit Reporting**

The primary purpose of Internal Audit reporting is to communicate to management within the organisation information that provides an independent and objective opinion on governance, the control environment and risk exposure and to prompt management to implement agreed actions.

Internal Audit should have direct access and freedom to report in their own name and without fear or favour to, all officers and members, particularly to those charged with governance (the Audit Committee).

Reports should be accurate, clear, concise, and constructive. They should be issued promptly and within laid-down timescales.

The aim of every internal audit report should be:

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- to give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment;
- to prompt management to implement the agreed actions for change leading to improvement in governance, risk management, the control environment and performance; and
- to provide a formal record of points arising from the audit and, where appropriate, of agreements reached with management, together with appropriate timescales.

### **Audit Committee**

The Council's Audit Committee will act as the Board as defined in the United Kingdom Public Sector Internal Audit Standards (PSIAS),

The Specific Functions of the Audit Committee are set out in the Council's Constitution (Part 3 Delegation Scheme) under three headings: Audit Activity; Internal Control and Financial Reporting.

The shared interests of the Audit Committee and Internal Audit suggest that there needs to be an effective working relationship between them.

That relationship has three elements:

- the approval (but not direction) of, and monitoring of progress against, the internal audit strategy and plan;
- using the results of Internal Audit's work to satisfy some of the Audit Committee's objectives (and vice versa); and
- aligning the operations of the Committee and Internal Audit, as far as possible without compromising their individual responsibilities, to make best use of resources.

The Chief Internal Auditor must balance being appropriately accountable to the Committee, helping the committee to be effective, with relationships with others e.g. the S.151 Officer.

To facilitate the work of the Committee, the Chief Internal Auditor will:

- attend its meetings, and contribute to the agenda;
- participate in the Committee's review of its own remit and effectiveness;
- ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives (e.g. the Audit Strategy, annual work programmes, progress reports);
- report the outcomes of internal audit work, in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address;
- establish if anything arising from the work of the committee requires consideration of changes to the audit plan, and vice versa;

## **West Devon Borough Council** **Internal Audit Charter 2014/15**

- present an annual report on the effectiveness of the system of internal audit; and
- present an annual internal audit report including an overall opinion on the governance, risk and control framework, and a summary of any unresolved issues.

The Chief Internal Auditor should also have the opportunity to meet privately with the Audit Committee.

### **Quality Assurance and improvement Programme**

The PSIAS states that a quality assurance and improvement programme must include both internal and external assessments.

The basis for internal assessments is set in the Strategy at Appendix B.

External assessments must be conducted at least once in five years by a qualified, independent assessor from outside of the Council.

The Chief Internal Auditor must discuss any proposals with the Audit Committee but the assessment may be in the form of full external assessment, or a self assessment with independent external validation.

The scope of any external review must be agreed in advance with the S.151 Officer or Chairman of the Audit Committee, and may also cover the work of the Audit Committee itself.

The results will be reported to the Audit Committee in the Chief Internal Auditor's annual report, as well as progress against any improvement plan.

### **Charter - Non Conformance and Review**

Any instances of non conformance with the Internal Audit Definition, Code of Conduct or the Standards must be reported to the Audit Committee, and in significant cases consideration given to inclusion in the Annual Governance Statement.

The Chief Internal Auditor will advise the Audit Committee on behalf of the Council on the content of the Charter and the need for any subsequent amendment. The Charter should be approved and regularly reviewed by the Audit Committee.



**West Devon Borough Council**

**Internal Audit**

**Strategy 2014/2015**

## **West Devon Borough Council** **Internal Audit Strategy 2014/15**

### **Introduction**

The Accounts and Audit Regulations 2011 state that:

*"A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices."*

For the purposes of the Regulations, proper practice is that contained in the Public Sector Internal Audit Standards (PSIAS).

The PSIAS require the Chief Internal Auditor to produce an Audit Strategy, which:

- Is a high-level statement of how the internal audit service will be delivered and developed in accordance with the Terms of Reference and how it links to the organisational objectives and priorities.
- Will communicate the contribution that Internal Audit makes to the organisation and should include:
  - Internal Audit objectives and outcomes;
  - how the Chief Internal Auditor will form and evidence his or her opinion on the control environment to support the Annual Governance Statement;
  - how Internal Audit's work will identify and address significant local and national issues and risks;
  - how the service will be provided, i.e. internally, externally, or a mix of the two; and
  - the resources and skills required to deliver the Strategy.
- Should be approved, but not directed, by the Audit Committee.
- The Strategy should be kept up to date with the organisation and its changing priorities;

### **Internal Audit Objectives and Outcomes**

The primary objective of the Internal Audit team is to provide an independent and objective opinion to the Council on the control environment and governance framework by evaluating its effectiveness in achieving the organisation's objectives through examining, evaluating and reporting on their adequacy as a contribution to the proper, economic, efficient use of resources.

To achieve this primary objective, the Council's Chief Internal Auditor aims to fulfil the statutory responsibilities for Internal Audit by:

- Identifying all of the systems, both financial and non financial, that form the Council's control environment and governance framework, and contribute to it meeting its obligations and objectives – the 'Audit Universe';
- Creating an audit plan that will enable Internal Audit to carry out reviews covering all of the Audit Universe over a period of 5-years, prioritised through a risk assessment;
- Translating the 5-year audit plan into an annual plan by reassessing the risk for each audit area against emerging risks and the Council's Risk Registers;



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- Undertaking individual audit reviews, to the standards set by the PSIAS, to independently evaluate the effectiveness of internal control;
- Providing managers with an opinion on and recommendations to improve the effectiveness of risk management, control and governance processes as to:
  - the extent to which the Council's assets and interests are accounted for and safeguarded from losses of all kinds;
  - the completeness, suitability, reliability and integrity of financial and other management information developed within Council (Data Quality);
  - the systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by management of the Council or externally. These include in particular the Council's Contract and Financial Procedure Rules;
  - whether operations are being carried out as planned and objectives and goals are being met.
- Providing managers with advice and consultancy on risk management, control and governance processes;
- Liaising with the Council's external auditors to ensure efficient use of scarce audit resources through the avoidance of duplication wherever possible; and
- Providing the Council through the Audit Committee with an opinion on internal control as a contribution to the System of Internal Control and Annual Governance Statement.

### **Opinion on Internal Control**

As stated above one of the key objectives of Internal Audit is to communicate to management within the Council information that provides an independent and objective opinion on their control environment and risk exposure, and to prompt management to implement agreed actions.

Significant issues and risks are to be brought to the attention of the S.151 Officer as and when they arise. For routine work a written monthly report highlighting the 'opinions' communicated to managers and the performance of the Internal Audit team is to be provided by the Chief Internal Auditor copied to this officer. A formal monthly meeting must also be held to discuss issues arising and other matters.

The Chief Internal Auditor must report progress against the annual audit plan and any emerging issues and risks to the Audit Committee quarterly in a format agreed between the parties.

The Chief Internal Auditor must also provide a written annual report to the Audit Committee timed to support their recommendation to approve the Annual Governance Statement to the Council.

The Chief Internal Auditor's annual report to the Audit Committee must:

- (a) Include an opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework;

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- (b) Disclose any qualifications to that opinion, together with the reasons for the qualification;
- (c) Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance streams;
- (d) Draw attention to any issues the Chief Internal Auditor judges particularly relevant to the preparation of the Annual Governance Statement;

And for the system of internal audit:

- (e) Compare the audit work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets; and
- (f) Comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

### **Planning including Local and National Issues and Risks**

The audit planning process is subject to a risk assessment at all stages of the process: the 5-year plan; annual plan and individual audit reviews.

Prioritising the 5-year plan is completed using a risk assessment scoring methodology that takes account of: the £k value; inherent risk (definition below); political sensitivity; when last audited; and the impact on other systems. This forms the basis of the resources allocated to each planned audit area.

Updating the original risk assessment above to create an annual audit plan includes taking account of emerging risks, both local and national, through consideration of the:

- Council's Risk Registers;
- Minutes of the Council, Committees and Senior Management Team;
- Issues arising from the previous year's audit reviews, including those covering the Risk Management and Corporate Governance frameworks (Annual Governance Statement);
- National issues highlighted by professional bodies such as CIPFA's Finance Advisory Network (FAN), National Anti Fraud Network (NAFN) or the Council's external auditor; and
- Liaison with other Internal Audit teams on a formal and informal basis.

Further planning and risk assessment is required at the commencement of each individual audit review to establish the scope of the audit and the level of testing required.

This considers:

- The objectives of the activity being reviewed;
- When it was last audited, the results of that review and whether the recommendations made have been implemented;
- Any changes to the system since the last audit;
- The results of an analytical review (comparison of the data for the year of audit with the previous year's equivalent, taking account of expected changes);

## **West Devon Borough Council** **Internal Audit Strategy 2014/15**

- The inherent risk: the level of risk to the Council of the system if there were no controls in place, such as the vulnerability to fraud and if there are any known incidents of fraud, and the means by which the potential impact of risk is kept to a minimum;
- The quality, experience and morale of officers involved in the system; and
- Impact on the control environment of service reviews by managers and the results of any relevant performance indicators.

### **Provision of Internal Audit**

The Internal Audit service is provided on behalf of the Council by a small team of in-house auditors. Past benchmarking of the cost of Internal Audit when compared with other Councils has shown that it is a cost effective service that continues to meet the requirements of its stakeholders.

The Chief Internal Auditor has established policies and procedures in an Audit Manual to guide staff in performing their duties and complying with the latest available PSIAS guidelines. The manual is regularly reviewed and updated to reflect changes in working practices and standards.

#### *Internal Audit Performance Management and Quality Assurance*

External performance assessment is discussed in the Charter at Appendix A.

The PSIAS and the Council's Audit Manual state that internal performance, quality and effectiveness should be assessed at two levels:

- For each individual audit; and
- For the internal audit service as a whole.

The documents also state that the Chief Internal Auditor should have in place a performance management and quality assurance framework to demonstrate that the internal audit service is:

- (a) Meeting its aims and objectives;
- (b) Compliant with the PSIAS;
- (c) Meeting internal quality standards;
- (d) Effective, efficient, continuously improving; and
- (e) Adding value and assisting the organisation in achieving its objectives.

This performance management and quality assurance framework must include, but not be limited to:

- A comprehensive set of targets to measure performance, developed in consultation with appropriate parties. Performance measures should be included in any service level agreement. The Chief Internal Auditor should measure, monitor and report appropriately on the progress against these targets;
- Seeking user feedback for each individual audit and periodically for the whole service;

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- A periodic review of the service against the Strategy and the achievement of its aims and objectives. The results of this should inform the future Strategy and be reported to the Audit Committee;
- Internal quality reviews to be undertaken periodically to ensure compliance with the PSIAS and the Audit Manual (self assessment);
- An action plan to implement improvements.

The following table shows the key performance indicators used by the service.

*Table 1: Internal Audit Key Performance Indicators*

|   | <b><u>Current Target, and, Frequency of Measure</u></b> |
|---|---|
| ➤ Achievement of the annual audit plan.   | 95%<br>Monthly  |
| ➤ Percentage of draft audit reports issued within 10 working days of the completion of the audit.   | 100% Annually   |
| ➤ Percentage of final audit reports issued within 10 working days of the discussion and agreement of the draft audit report.  | 100% Annually   |
| ➤ Customer Survey: Responses Received;<br>Audit Planning - Consultation; Objectives<br>Quality of Audit Report - Clarity; Accuracy;<br>Value; Presentation  | 90% Annually<br>90% Annually                            |
| ➤ Communication - Feedback; Helpfulness;<br>Professionalism; Timeliness.  | 90% Annually  |
| ➤ The percentage of audit reports where the agreed recommendations were satisfactorily actioned, or follow up indicator to align with other audit teams to be agreed later with the Chairman and reported to the Committee; and | 90% Annually  |
| ➤ Cost of Internal Audit provision.   | £ against budget  |

Once collated the indicators must be reported to the S.151 Officer on either a monthly or annual basis in line with collection and to the Audit Committee quarterly and/or annually. Performance indicators should be presented with prior year's equivalent to aid comparison.

Performance indicators or targets may be amended from time to time with the prior agreement of the Audit Committee.

The Chief Internal Auditor needs to ensure that the performance and the effectiveness of the service improve over time, in terms of both the achievement of targets and the quality of the service provided to the user.

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### *South Hams District Council (Shared Service)*

The Internal Audit team consists of 2.9 whole time posts, the Chief Internal Auditor, Senior Auditor and an Auditor. These posts are employed by South Hams District Council but staff costs are shared on a proportionate basis with West Devon Borough Council, based on the internal audit team delivering an audit plan of 115 days to West Devon Borough Council. The shared internal audit service is providing an annual saving of £10,000 to West Devon Borough Council when compared with the previous arrangement.

Separate Charter and Audit Strategy Documents are presented to the South Hams Council's Audit Committee.

Increasing numbers of audits are either carried out as a joint exercise or separately but at the same time. The difference depending on how aligned the systems are and the level of audit budget is available at both sites.

### *Collaboration with Teignbridge District Council (Shared Service)*

A previous Shared Service Joint Steering Group accepted a proposal for the extension of the collaboration between the internal audit teams of South Hams and Teignbridge District Councils with exchange of audit resources, skills, training and key documents.

Details were presented in the related report to the Audit Committees, where members also accepted, in principle, the mutual assurance of the high priority of both Councils' audit plan in times of crisis, subject to the specific approval of the Chairman.

This arrangement has not been formally rescinded by members and therefore continues.

## **Resources and Skills**

### *Resources*

The PSIAS and the Council's Audit Manual states that:

- Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities and objectives, or have access to the appropriate resources;
- The Internal Audit service shall be managed by an appropriately qualified professional with wide experience of internal audit and of its management;
- The Chief Internal Auditor should be of the calibre reflecting the responsibilities arising from the need to liaise with members, senior management and other professionals, and be suitably experienced.

The approved Internal Audit establishment for the Council consists of 2.9 whole time posts, the Chief Internal Auditor (33.5 hours per week), Senior Auditor and an Auditor.

The Chief Internal Auditor's post has now been formally reduced to 33.5 hours, which is the level operated through 2012/13. To minimise the impacts on the assurance provided to both Councils, the target for completion of 100% of the annual audit plan will be

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decreased to 95% and with such it is considered that the level of staffing will prove to be adequate.

### **Specialist Areas**

From time to time, additional resources will be brought in to provide assurance on certain specialist areas such as Value Added Tax (VAT) and Income Tax (PAYE) at the discretion of the S.151 Officer in consultation with the Chief Internal Auditor. The Audit Committee will be kept informed.

### **Dealing with Alleged Fraud at Either Council**

The main threat to completing the targeted % of the annual audit plan is the requirement for Internal Audit to investigate fraud. A contingency budget is built into the audit plan to provide cover for such eventualities, as well as other unexpected tasks such as advice to managers on control or internal financial regulations, contributions to the setting up of new systems or unexpected additional work on planned audits.

The contingency budget may prove insufficient for large scale investigations. In the circumstances where this occurs and where there is likely to be an impact on the remainder of the annual audit, the Chief Internal Auditor must discuss the situation with the S.151 Officer to enable a decision to be made to seek additional temporary resources if appropriate. The same comment applies to other staffing shortages brought about by long term sickness absence, vacant posts etc.

The Audit Committee will be kept informed.

### **Skills**

The Chief Internal Auditor's duty is to recruit staff with the appropriate professional background, personal qualities and potential. He or she is responsible for ensuring that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes.

Internal Audit staff must also be properly trained to fulfil all their responsibilities. The Chief Internal Auditor will periodically assess individual auditors against these predetermined skills and competencies using the Council's formal appraisal system.

Any training or development needs identified will be included in an appropriate ongoing development programme that is recorded and regularly reviewed and monitored both within and outside of the appraisal process. A copy of the appraisal training programme will be sent to personnel with the appraisal as the corporate system requires.

Time will be allowed within the annual audit plan to allow internal audit staff to receive the relevant training.

In addition, the Chief Internal Auditor will allocate work to reflect the skills and experience required for the specific task, although it is essential that a balance is struck between

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knowledge and client relationships built through continuity and the need for audit staff to develop by auditing areas that they have not previously covered.

In some circumstances, there may be a skill shortage within the Internal Audit team as a whole e.g. specialist audit areas such as technical computer audit. Where this applies the advice of specialists should be sought from within the Council, from colleagues at Teignbridge District Council or other neighbouring Councils or the external auditor.

In extreme situations, the services of a specialist may need to be bought in but the Chief Internal Auditor will only do this with the consent of the S.151 Officer. The Audit Committee will be informed in such cases.

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