

South Hams District Council

The Role of Internal Audit

What is Audit?

From Latin “auditus” – to hear

Audit aims to provide an independent assessment of performance of an organisation. Most public sector organisations have external and internal audit:-

- External Audit – provides an opinion on the accuracy of the organisations financial statements
- Internal Audit - has evolved into an assurance and consulting activity focussed on risk management, control and governance processes

The importance of other assurance functions

Before considering the role of internal audit we need to be aware of other assurance functions and how these operate. In particular:-

Risk management. This is “the identification, assessment, and prioritisation of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realisation of opportunities”.

The Authority is required to have sound and effective risk management arrangements in place, and

Corporate governance refers to the system by which organisations are directed and controlled. The governance structure sets out the roles and responsibilities of the different participants in the organisation (such as members, the Leadership Team, managers, etc.) and specifies the rules and procedures for making decisions.

Governance is a mechanism for monitoring the actions, policies and decisions of an organisation.

Role & Objectives of Internal Audit

The Chief Finance Officer of a Council (at South Hams this is the Community of Practice Lead for Finance – the S151 Officer) has a statutory requirement to maintain “adequate and effective internal audit”

This internal audit function must provide assurance around:-

- The extent to which risks are adequately identified and mitigated
- The strength (or otherwise) of internal controls
- Extent of compliance with policies, regulations & procedures
- Suitability and reliability of financial and other data
- Opportunities to promote better value for money
- Extent to which assets safeguarded against waste and losses

Planning Internal Audit Work

It is not possible, or economically desirable, to require internal audit to look at all risks and services of an organisation each year; as a consequence the internal audit team are required to work with senior management in preparing an annual internal audit plan.

The internal audit team maintains a “long list” of risks, service areas, system and operations and this is often referred to as an “audit universe”.

Each year the audit universe is revisited to ensure it captures all activities and is used to plan work for a three year period, and an annual internal audit plan.

This process requires an “audit risk assessment” to take place, which takes into account a number of factors that help to determine when (and if) an area should be audited. Factors include; date last audited; the value of financial transactions; the impact on the organisation should the risk materialise; the impact on customers / service user.

This plan is presented to and agreed by Senior Leadership Team (SLT) and then taken to the Audit Committee for consideration and approval.

For each audit review in the plan a detailed audit brief will be prepared. This is agreed with the service manager to ensure audit work addresses key risks and concerns.

Reporting findings

At the completion of fieldwork, the audit team will undertake an Informal Debrief, following which a Draft Report will be produced. The Draft report requires management response to any issues identified / recommendations made and once received and agreed a final report will be prepared.

The final report provides:-

- Internal audit’s opinion on controls in place to manage exposure to risk
- Summarises recommendations aimed at improving control
- Includes management responses and timescale as to what will be done to strengthen control.
- Assignment reports issued to management – the report is an “internal” document, not in the public domain

Reporting to the Audit Committee

Internal Audit aim to report to each audit committee on the:-

- progress made against the internal audit plan;
- Summaries of work completed;
- Highlights of any areas where action is required & has been taken by management; and
- Areas where action is required but not yet completed – i.e. the risk has not yet been addressed

Annual Internal Audit Report

An annual report is provided to the audit committee which provides a summary of the work for the year. This provides the overall annual opinion of the control environment of the Council

Anti-fraud arrangements

Internal audit has a significant role to play in the prevention, detection and (where appropriate) investigation of fraud and irregularity.

All internal audit work will consider the risk of fraud and consider if arrangements are robustly preventing fraud.

Recommended reading

- What every director should know about internal audit
- The three lines of defence in effective risk management and control

Both available for free at www.iaa.org.uk

The Internal Audit Team

The internal audit team is shared team between South Hams and West Devon Councils. The team has 2 x full time staff; one Specialist Auditor and one Auditor. The team is managed by way of a contract with Devon Audit Partnership (see below) and is based in Follaton House.

The team use the MKi audit management system (supplied by DAP) to record working papers and produce audit reports.

The team can be contacted as follows:-

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Devon Audit Partnership is a Partnership between Devon County Council, Plymouth City Council and Torbay Council; the Partnership was founded in 2009.

The Partnership has around 36 Audit Staff, many of whom have specialist skills such as computer and contracts auditors.

The Partnership works with a large number of other not-for-profit organisations such as:-

Teignbridge District Council Torridge District Council
Devon and Cornwall Police Devon & Somerset fire & Rescue Service
The majority of schools (including Academies) in Devon
Dartmoor & Exmoor National Parks

Find out more at <http://www.devonaudit.gov.uk/>