

NAME OF COMMITTEE	AUDIT COMMITTEE
DATE	12 March 2015
REPORT TITLE	INTERNAL AUDIT: CHARTER & STRATEGY – 2015/16
Report of	HEAD OF DEVON AUDIT PARTNERSHIP S.151 OFFICER
WARDS AFFECTED	ALL/CORPORATE

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 2015/16.

For South Hams District Council (and West Devon Borough Council) internal audit management is provided by Devon Audit Partnership; the Head of Devon audit Partnership liaises with senior management and the audit committee on all internal audit matters.

The standards for proper practice for internal audit are contained in the Public Sector Internal Audit Standards (PSIAS) (Institute of Internal Auditors and CIPFA). The audit team work to a regularly updated 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 this report, with the Charter attached at Appendix A and Audit Strategy at Appendix B.

Financial implications:

None, within the existing budget for internal audit.

RECOMMENDATIONS:

That the Audit Committee review and approve the Internal Audit Charter and Strategy 2015/16.

Officer contact:

Robert Hutchins Head of Devon Audit Partnership

Email: Robert.hutchins@devon.gov.uk

Lisa Buckle, S.151 Officer and Finance Community of Practice Lead

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 (PSIAS) and guidance as issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) in their Local government Application Note (LGAN).
- 1.3 The audit team comply with a regularly updated Audit Manual which sets out the standards and procedures expected of the team.
- 1.4 The Public Sector Internal Audit Standards, the LGAN and Audit Manual require that the Charter and Audit Strategy are presented to the Audit Committee for review and approval.

2. INTERNAL AUDIT: CHARTER 2015/16 - Appendix A

- 2.1 The 2015/16 Charter reflects the CIPFA '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 2015/16 - 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 include:

- Internal Audit objectives and outcomes;
- How the Head of Devon Audit Partnership 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.

Corporate priorities engaged:	All
Statutory powers:	Section 111 Local Government Act 1972; and Accounts and Audit Regulations 2011.
Considerations of equality and human rights:	No specific equality and human rights issues arising from this report.
Biodiversity considerations:	No specific biodiversity issues arising from this report.
Sustainability considerations:	No specific sustainability issues arising from this report.
Crime and disorder implications:	No specific crime and disorder issues arising from this report.
Background papers:	IIA 2013 document - Applying the IIA International Standards to the UK Public Sector; CIPFA document - Local Government Application Note for the UK Public Sector Internal Audit Standards 2013; South Hams District Council & West

	Devon Borough Council Internal Audit Manual - 2014
Appendices attached:	Appendix A – Internal Audit Charter; Appendix B – Internal Audit Strategy 2015/16

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>	Head of Devon Audit Partnership
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>	Head of Devon Audit Partnership

Direction of travel symbols ↓ ↑ ↔



South Hams District Council

Internal Audit

Charter 2015/16

South Hams District Council **Internal Audit Charter 2015/16**

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 South Hams District Council, the Finance Community of Practice (COP) Lead is currently 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:

South Hams District Council **Internal Audit Charter 2015/16**

- 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 Head of Devon Audit Partnership 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.

South Hams District Council **Internal Audit Charter 2015/16**

Status of Internal Audit

The position of Internal Audit in the organisation should reflect the influence internal audit has on the control environment. Internal audit 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 Head of Devon Audit Partnership should immediately be informed. A record of any interest shall be recorded in the Council's register of such interests. The Head of Devon Audit Partnership shall, thereafter, assess the need to arrange for alternative arrangements to carry out the assignment.

Should an internal audit contractor be 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 Head of Devon Audit Partnership, who will:

- Be appropriately qualified;
- Determine the priorities of, deliver and manage the Council's internal audit service through a risk based annual audit plan;

South Hams District Council **Internal Audit Charter 2015/16**

- Produce a Strategy to explain how the service will be delivered and reflect the resources and skills required by the Head of Devon Audit Partnership 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 Head of Devon Audit Partnership is required to give an annual audit opinion on the governance, risk and control framework based on the audit work done.

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

In addition the Head of Devon Audit Partnership 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 assess risk and establish effective controls to mitigate this risk so that its activities are conducted in an efficient and well ordered manner.

The scope of Internal Audit work should cover the whole system of control, financial and otherwise, are established by management to:

- Safeguard its assets;
- Ensure reliability of records;
- Promote operational efficiency; and
- Monitor adherence to policies and directives.

If the Head of Devon Audit Partnership 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.

South Hams District Council **Internal Audit Charter 2015/16**

The Head of Devon Audit Partnership 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 Head of Devon Audit Partnership will agree appropriate access rights in order to obtain the necessary assurances.

Audit Planning

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

The Head of Devon Audit Partnership will prepare a risk-based audit plan designed to implement the Audit Strategy.

In preparing the plan, the Head of Devon Audit Partnership 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 Head of Devon Audit Partnership 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 Head of Devon Audit Partnership 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

South Hams District Council **Internal Audit Charter 2015/16**

on the activities intended. This includes responsibility for managing the risk of fraud and other illegal acts and informing the Head of Devon Audit Partnership when fraud is suspected or identified.

The Head of Devon Audit Partnership 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 prevented or 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:

South Hams District Council **Internal Audit Charter 2015/16**

- 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 Head of Devon Audit Partnership 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 Head of Devon Audit Partnership 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;

South Hams District Council **Internal Audit Charter 2015/16**

- 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 Head of Devon Audit Partnership 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 be developed; the programme should be informed by 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 Head of Devon Audit Partnership 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 Head of Devon Audit Partnership'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 Head of Devon Audit Partnership 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.



South Hams District Council

Internal Audit

Strategy 2015/16

South Hams District Council

Internal Audit Strategy 2015/16

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 refers to the role of Chief Internal Auditor, and requires this officer to ensure and deliver a number of key elements to support the internal audit arrangements. For South Hams District Council, the role of Chief Internal Auditor is provided by the Head of Devon Audit Partnership via a contracted arrangement.

The PSIAS require the Head of Devon Audit Partnership 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 Charter 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 Head of Devon Audit Partnership will form and evidence his or her opinion on the governance, risk and control framework 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.

South Hams District Council **Internal Audit Strategy 2015/16**

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 governance, risk and control 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 Head of Devon Audit Partnership 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 3-years, prioritised through a risk assessment;
- Translating the 3-year audit plan into an annual plan by reassessing the risk for each audit area against emerging risks and the Council's Risk Registers;
- 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; and
 - 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 governance, risk and control framework as a contribution to the System of Internal Control and Annual Governance Statement.

South Hams District Council
Internal Audit Strategy 2015/16

Opinion on the Governance, Risk and Control Framework

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 governance, risk and control framework, 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 Head of Devon Audit Partnership copied to this officer. Regular formal meetings should also be held to discuss issues arising and other matters.

The Head of Devon Audit Partnership 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 Head of Devon Audit Partnership 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 Head of Devon Audit Partnership'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;
- (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 Head of Devon Audit Partnership 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.

South Hams District Council **Internal Audit Strategy 2015/16**

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 3-year plan; annual plan and individual audit reviews.

Prioritising the 3-year plan is completed using a risk assessment scoring methodology that takes account of: the £k value; level of change, impact on the public; political sensitivity; when last audited; and the impact of an audit. 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, other related 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);
- 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.

South Hams District Council **Internal Audit Strategy 2015/16**

Provision of Internal Audit

The Internal audit for South Hams District Council is provided by way of a shared service arrangement with West Devon Borough Council.

The Internal Audit service is managed through a contractual arrangement with the Devon Audit Partnership. Audit delivery is predominantly delivered 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 Head of Devon Audit Partnership has established policies and procedures in an Audit Manual to guide staff in performing their duties and complying with the latest available PSIAS guidance. 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 Head of Devon Audit Partnership should have in place an internal 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 internal 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 Head of Devon Audit Partnership 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;
- 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;

South Hams District Council
Internal Audit Strategy 2015/16

- Internal quality reviews to be undertaken periodically to ensure compliance with the PSIAS and the Audit Manual (self assessment); and
- 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

	<u>Current Target, and, Frequency of Measure</u>
➤ Achievement of the annual audit plan.	95% Quarterly
➤ Percentage of draft audit reports issued within 10 working days of the completion of the audit.	95% Annually
➤ Percentage of final audit reports issued within 10 working days of the discussion and agreement of the draft audit report.	95% Annually
➤ Customer Survey: Responses Received; Audit Planning - Consultation; Objectives Quality of Audit Report - Clarity; Accuracy; Value; Presentation	90% Annually 90% Annually
➤ Communication - Feedback; Helpfulness; Professionalism; Timeliness.	90% Annually
➤ Overall cost, with/without oncosts/recharges	£ Annually
➤ Average cost per audit day: direct costs, and with/without oncosts/recharges.	£ Annually £ 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.	90% Annually

Once collated the indicators must be reported to the S.151 Officer on either a quarterly 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 Head of Devon Audit Partnership 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.

South Hams District Council

Internal Audit Strategy 2015/16

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; and
- The Head of Devon Audit Partnership 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 Internal Audit team, shared with South Hams District Council consists of 2 whole time posts; the team is managed through a contractual arrangement with the Devon Audit Partnership.

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 Head of Devon Audit Partnership.

Dealing with Resource Issues (such as instances of Alleged Fraud and Corruption).

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.

In extreme cases 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 Head of Devon Audit Partnership must discuss the situation with the S.151 Officer to enable a decision to be made. Such a decision may be to seek additional temporary resources, to defer audits to a future year or other solutions. The same comment applies to other staffing shortages brought about by long term sickness absence, vacant posts etc.

Skills

The Head of Devon Audit Partnership's duty is to recruit staff with the appropriate professional background, personal qualities and potential. He or she is responsible for

South Hams District Council **Internal Audit Strategy 2015/16**

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 Head of Devon Audit Partnership 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 Head of Devon Audit Partnership will allocate work to reflect the skills and experience required for the specific task, although it is essential that a balance is struck between 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 Devon Audit Partnership or other neighbouring Councils or the external auditor.

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