

**Audit & Business Risk**

# **Internal Audit Annual Report and Opinion 2012/13**

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## **Acknowledgements:**

We are grateful for the continued co-operation and support we have received from all those engaged with the audit process during 2012/13

## Introduction

### Purpose of the report

1. This report summarises the internal audit work undertaken by Audit & Business Risk Services during the financial year 2012/13, in particular the outcomes of audit reviews, management actions and counter fraud activities. The report includes the Head of Audit & Business Risk's Annual Opinion on the Council's control environment.
2. The Council continues to operate in a changing environment with new and emerging risks arising throughout the year. There is therefore a need for Members, Management and Audit & Business Risk to work closely to ensure that the Council maintains an effective control environment. This is particularly important in the current economic environment with the level of change and the need for modernisation to deliver savings.

### Role of Internal Audit

3. The Council's Internal Audit function is provided by Audit & Business Risk, part of the Finance & Resources Directorate, together with Deloitte & Touche Public Sector Internal Audit Ltd under a co-sourced arrangement.
4. The role is to provide independent and objective assurance on the adequacy of the council's internal control environment, comprising risk management, internal control and governance by evaluating its effectiveness as a contribution to the proper economic, efficient and effective use of resources.
5. Internal Audit is a statutory requirement for local authorities under the Accounts & Audit Regulations 2011, which states that '*a local authority shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices.*' The Council has recognised this statutory requirement in its financial regulations.
6. We continually seek to adapt and enhance our approach in order to take account of the Council's risk profile and emerging issues, to ensure our work remains focussed on the areas of highest risk and providing value added to services.
7. Internal audit work also assists the Director of Finance & Resources in the discharge of her responsibilities as the Council's Section 151 Officer.

## Head of Audit & Business Risk's Annual Audit Opinion

8. The level of assurance that the Head of Audit & Business Risk provides is based on the internal audit work carried out during the year. In assessing the level of assurance given, the following have been taken into account:

- Internal audit work completed during 2012/13, planned and unplanned;
- Management responses to audit reviews including effective actions to audit recommendations made;
- Follow-up action taken following agreement and issue of final audit reports in 2012/13 and previous years;
- Assurance levels from individual audit reviews;
- Other assurance work undertaken both from internal and external sources;
- Impact of significant changes to the Council's systems and operations; and
- The quality and performance of internal audit work and extent of compliance with the CIPFA Code of Practice for Internal Audit for 2012/13.

### Annual Audit Opinion

No assurance can ever be absolute, however based upon the internal audit work undertaken it is the Head of Audit & Business opinion that **reasonable assurance can be provided on the adequacy and effectiveness of the Council's control environment operating for the year ended 31<sup>st</sup> March 2013.** The Council's control environment comprises governance arrangements, risk management and internal control.

9. Our audit work during the year has identified weaknesses and specific control improvements required in a number of key system areas. We will continue to work closely with management in successfully implementing actions within reasonable timescales.

## Internal Audit Activity

### Annual Audit Plan

10. The Internal Annual Audit Plan for 2012/13 was agreed by the Audit & Standards Committee April 2012 and included a total of 104 specific risk based audit reviews including 10 schools. The Internal Audit Plan is flexible to emerging issues and risks throughout the year and subject to change through liaison with management to ensure the best use of our audit resources. Consequently a total of 4 audit reviews were added but 4 agreed with clients to be cancelled, due to changing circumstances (e.g. new system implementation not taking place).
11. A further 10 individual schools audits were planned but during 2012/13 we changed our approach to a risk based thematic one, in common with a number of other local authorities. We therefore did not carry out the 10 individual schools audits the thematic approach provided better coverage and assurance over the management of risks and key controls associated with schools e.g. ICT security, procurement. We will be however reviewing this approach during 2013/14 particular with any emerging requirements from the Department of Education.

12. At the time of preparing this report the position on the remaining 94 audits was as follows:
- 69 – At final report stage (completed)
  - 11 – At draft report stage (awaiting responses and agreement from clients)
  - 11 – At audit fieldwork or work in progress stage and
  - 3 – Not commenced as agreed with clients to defer to 2013/14.
13. There have been operational problems that have caused 11 audits to be delayed and still be at fieldwork stage. These have included the capacity of the Internal Audit Team, sickness and the availability of service managers due to work pressures. We are currently working with service managers to progress these outstanding audit reviews.
14. For 2012/13 the actual direct or productive audit days was 1,578 against planned of 1,810. The difference (13%) is explained by a significantly higher actual than planned level of indirect or unproductive time and a small staff vacancy level.

### Outcomes from Audit Reviews

15. Table 1 below contains a summary of agreed assurance levels given in final audit reports, including a comparison with the previous year. Those classed as not included (2) for assurance level purposes are where it is not relevant and therefore not provided.

**Table 1 – Summary of Assurance Levels for 2012/13 and 2011/12 (Final Reports)**

Assurance Level	No. of Audit Reviews			
	2012/13		2011/12	
Full	0	0%	0	0%
Substantial	23	33%	22	36%
Reasonable	32	47%	25	40%
Limited	12	17%	13	21%
No	0	0%	0	0%
Not Included	2	3%	2	3%
Totals	69	100%	62	100%

**Table 2 – Summary of 2012/13 Assurance Levels by Area (Final Reports)**

	Substantial	Reasonable	Limited	Total
Governance Arrangements	1	3	1	5
Cross Cutting	3	9	3	15
Fundamental Systems	4	8	0	12
Procurement & Contract Management	1	1	2	4
ICT	2	2	2	6
Service Specific	12	11	4	27
Total	23	34	12	69

16. The number of audit reviews giving limited assurance has decreased from 21% in 2011/12 to 17% in 2012/13. Specific audit reviews at final report stage giving limited assurance are as follows:

- Business Planning;
  - Public Health Transition Arrangements;
  - Petty Cash;
  - Procurement Cards;
  - Highways Maintenance (Minor Works);
  - Brighton Centre Capital Development;
  - CIVICA Icon Cash Management;
  - Information Sharing;
  - Schools Thematic Review – Electronic Payments to Suppliers (BACS);
  - Homelessness Accommodation;
  - On and Off Street Car Parking;
  - Enforcement of Housing Estates Parking;
17. As part of our follow-up work we will be focussing particularly on those audits giving limited assurance and working with management to ensure agreed actions for improvements in internal controls are implemented.
18. Tables 3 and 4 below contain a summary of audit recommendations for improvements in internal controls, contained in audit reports issued for the year. Where audit recommendations are contained in final audit reports, actions will have been agreed with management for implementation. A comparison is again made with 2011/12.

**Table 3 - Audit Recommendations (Actions) Made for 2012/13 and 2011/12**

No. of Audit Recommendations/Actions	2012/13		2011/12	
	No.	%	No.	%
High	36	8%	40	8%
Medium	356	81%	377	76%
Low	50	11%	79	16%
<b>Totals</b>	<b>422</b>	<b>100%</b>	<b>496</b>	<b>100%</b>

**Table 4 – Audit Recommendations (Actions) by Area for 2012/13**

	High	Medium	Low	Total
Governance Arrangements	3	24	1	28
Cross Cutting	4	99	9	112
Fundamental Systems	1	52	9	62
Procurement & Contract Management	6	14	0	20
ICT	8	60	10	78
Service Specific	14	107	21	1423
<b>Total</b>	<b>36</b>	<b>356</b>	<b>50</b>	<b>442</b>

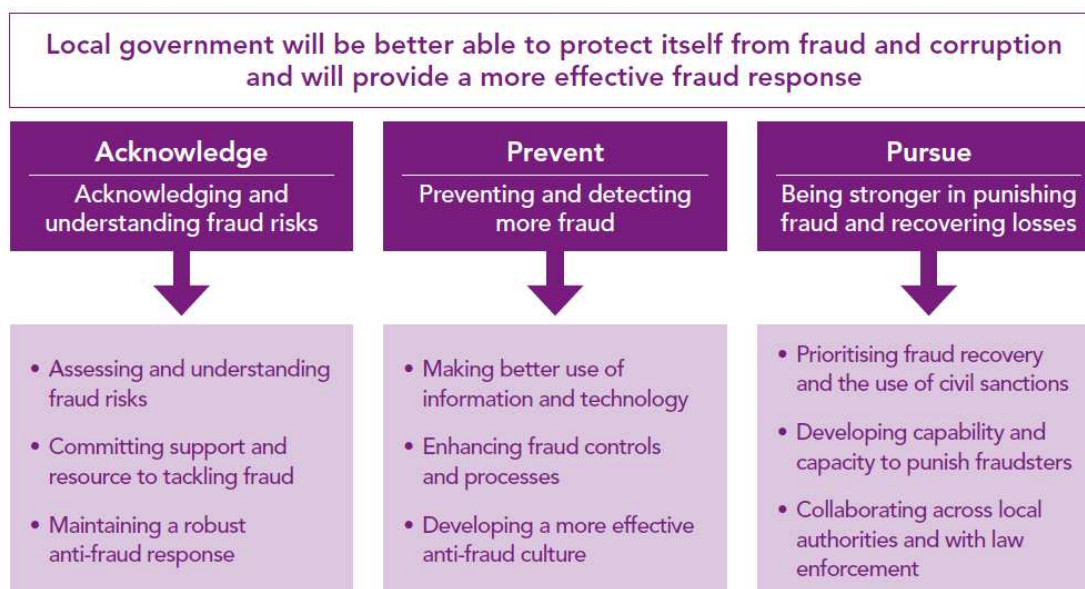
## Counter Fraud

19. Our work covers all corporate fraud and corruption which includes reactive investigations, but increasingly more of a proactive in managing the risk of fraud.

20. During the year we received and investigated 164 fraud referrals of suspected fraud and irregularities and of these currently 117 have been closed with 47 remaining as still in progress. The number of referrals remains high but has decreased from 180 in the previous year.
21. Of the closed cases, sanctions applied during 2012/13 included:
- 1 employee dismissed for housing benefit and housing fraud and also successfully prosecuted receiving a 12 month Community Order, 120 hours unpaid work and ordered to pay £200 costs;
  - 1 employee received an Administrative Penalty for Housing Benefit fraud and action of an internal nature is also being considered;
  - 1 employee dismissed for theft;
  - 1 employee received a final written warning;
  - 2 employees resigned whilst under investigation;
  - 1 case of an offer of employment being withdrawn;
  - Creditors overpayment of £13,758 identified and being recovered;
  - 1 housing tenant under investigation for suspected sub-letting and property recovered;
  - 1 housing property was recovered as it was found to have been abandoned.
22. The Council participates in the Audit Commission's National Fraud Initiative (NFI) data matching exercise to identify fraud and error. We have the lead role for the Council for co-ordinating and investigating matches and in January 2013, we received the output for the 2012 NFI exercise. Investigations of the matches are at an early stage but already overpayments of approximately £24,000 have been identified and 111 records on the concessionary travel system have been updated as a result of discovering that the pass holder has passed away. The overpayments figure is expected to increase further once the investigation of the matches are completed. It is also expected that the outcome of the investigation into some matches will lead to action of an internal/external nature being considered.
23. Proactive counter fraud work undertaken during the year included:
- Continuing the close liaison with other public sector organisations for a "partnership" approach to fighting fraud including the UK Borders Agency, Sussex Police, NHS Counter Fraud Service, NAFN Data & Intelligence Services, National Fraud Authority and various Local Authorities;
  - Close cross council working with officers from key services to combat fraud including Adult Social Care, Housing Management and Procurement;
  - Further development of INCASE Intelligence software; and
  - Further raising fraud awareness amongst staff and Members through training and briefings.
24. To improve the effectiveness of the Council's response to fraud, a new Corporate Fraud Team was created, effective from 2013/14 by merging the Housing Benefits Investigations Team with the established corporate staff resource of Internal Audit.



25. In November 2012, the Audit Commission published Protecting the Public Purse 2012 reporting Housing Tenancy fraud as the largest category of fraud loss (£Ms). Other areas include Council Tax, Housing Right to Buy, Direct Payments and Procurement.
26. The National Fraud Authority (part of the Home Office) published *Fighting Fraud Locally – ‘The Local Government Fraud Strategy’* in early 2012/13. This was reported to the Audit & Standards Committee including implications and we will continue to implement any outstanding applicable actions during 2013/14, in particular to the three main strands of the strategy, Acknowledge, Prevent and Pursue.



## Annual Governance Statement

27. Our assurance work and the Head of Audit & Business Risk's Annual Opinion above is a key part of the council's Annual Review of Governance Arrangements and production of the Annual Governance Statement. Key issues from audit reviews, in particular those providing limited assurance have been considered and where appropriate included in the Annual Governance Statement.

## Corporate Support

28. We have continued to be pragmatic in providing professional support to management through proactive advice and information. This element of our work is seen as invaluable by services, particularly in areas of change management. By taking this proactive approach, often problems and risks can be avoided. Areas included projects and programme management, HR processes, Adult Social Care, information governance and data quality.



## Management Response to Implementing Audit Recommendations/ Follow-up work

29. A key part to the effectiveness of internal audit reviews is the effective implementation of agreed actions for improvement by management. Our work includes follow-up reviews on these management actions to implement agreed audit recommendations. These reviews are planned to be carried out within six months of actions agreed of the audit review. From follow-up reviews carried out during 2012/13, the overall level of implementation of agreed actions is 73% of which 94% relates specifically to high priority recommendations.
30. Although our follow-up work focuses on high and medium priority actions, the high number of actions together with limited staff resources has restricted the level achieved. During 2013/14, we will be working management to improve the process including monitoring and reporting of implementation together with using greater use of automation software.

## Performance of Internal Audit

31. The key indicator for Internal Audit performance is achievement against the Annual Audit Plan, demonstrated earlier in this report. There are however other local performance indicators used based on professional best practices and included in the agreed Annual Internal Audit Plan and our Service Business Plan. These are monitored and reported throughout the year.

### Summary of 2012/13 performance data

32. Performance against effectiveness targets remains positive and reflects the quality of our work. The performance against agreed targets for 2012/13 is shown in Table 5 below. For comparison purposes, 2012/13 actuals are included.

### Table 5 – Actual Performance Against Targets

#### Completion of planned audits (to final or draft report) for 2012/13

<b>Purpose of the performance indicator:</b> to ensure that Audit & Business Risk provides sufficient coverage to provide an adequate and effective internal service, to provide sufficient assurance to management on the council's control environment and meet the requirements of the Section 151 Officer and External Audit.	
<b>Target: 95%</b>	<b>Achieved: 85% (2011/2 95%)</b>

(Note: Completion of planned audits for 2012/13 is at early June 2013. It is expected that **all** will be completed to final report)

### Turnaround times of audit reports

<b>Purpose of the performance indicator:</b> to ensure effectiveness of audit work in terms of timeliness and service delivery to clients.	
<b>Target:</b> Issue 90% of draft reports within 10 working days of completion of audit fieldwork.	<b>Achieved:</b> 92% (2011/12 94%)
<b>Target:</b> Receive 90% of client responses within 15 days of issue of draft reports.	<b>Achieved:</b> 89% (2011/12 91%)
<b>Target:</b> Issue of 95% of final audit reports within 10 days of agreement with clients.	<b>Achieved:</b> 87% (2011/12 89%)

### Client satisfaction levels of at least good or very good

<b>Purpose of the performance indicator:</b> to ensure Internal Audit provides a sufficient level of service in terms of quality and impact through adding value as required by its clients.	
<b>Target:</b> 92% of client satisfaction responses at least good or very good.	<b>Achieved:</b> 94% (2011/12 93%)

### Reliance by External Audit on the work of Audit & Business Risk

<b>Purpose of the performance indicator:</b> to ensure the audit coverage and quality is sufficient to meet the statutory requirements of external audit, including the International Standards of Auditing and beneficial in terms of reducing external audit fees to the City Council. Reliance is reflected in low level of external audit fees for the Council.	
<b>Target:</b> Reliance	<b>Achieved:</b> Reliance (2011/12 Reliance)

### Client Satisfaction

33. Although the target for responses in the good to very good categories has been achieved, the number of responses has significantly reduced impacting on its effectiveness as an indicator of quality. We will be revising our approach to capture client satisfaction during 2013/14 including use of electronic surveys and improved direct engagement.

## Service Benchmarking

34. Benchmarking is accepted as a key method of comparing performance with other unitary local authorities. We continued to participate in an annual benchmarking exercise carried out by the Chartered Institute of Public Finance & Accountancy (CIPFA). The information it provides is seen as invaluable in assisting us to demonstrate value against our peers
35. Information from annual exercises has demonstrated the value of our service and we have remained consistently in the upper performance quartile. The highlights from latest available comparative data was:
- Audit cost per £1M gross turnover for the council, £680 against an average of £984;
  - Audit days per £1m gross turnover for the council 2.17 against an average of 3.4; and
  - Direct days<sup>1</sup> per auditor 182 against an average of 175.

## Service Developments

36. The following were key service developments for 2012/13:
- Increased use of audit software (IDEA) for data analytics;
  - Restructure of the Corporate Fraud Team;
  - Use of Business Plans and Operational Risk Registers for Audit Planning; and
  - Further implementation of audit methodologies and Audit Management Software to embed good working practices; and
  - Developing auditing skills in ICT and procurement.
37. The following are key service developments planned for 2013/14:
- Further enhanced use of audit software for in particular tracking agreed actions to audit recommendations made;
  - Conformance with the new Public Sector Internal Audit Standards and Local Government Application Note;
  - Review of progress and performance reporting including to Audit & Standards Committee, Executive Leadership Team and Directorate Management Teams;
  - Greater use of flexible working to increase productivity and satisfaction of staff;
  - Further developing the use of analytical software tools across the council's systems to focus audit resources on high risk areas e.g. data mining and continuous auditing
  - Review of stakeholder feedback to individual audit reviews and full survey; and
  - Greater use of fraud intelligence.

<sup>1</sup> Direct days are total days available less all leave, training and administration; therefore productive time spent carrying out audit work.

**Appendix A****Analysis of Audit Reviews 2012/13 (completed to draft or final report stage)**

Area	Audit	Status	Assurance Level	Recommendations/Agreed Actions and Priority		
				High	Medium	Low
<b>Governance Arrangements</b>	Annual Governance Statement	Final Report	N/A	-	-	-
	Corporate Governance Framework	N/A	N/A	-	-	-
	Neighbourhood Governance	Final Report	Substantial	0	4	0
	Risk Management	Final Report	Reasonable	0	2	0
	Business Planning	Final Report	Limited	3	5	0
	Data Quality	Final Report	Reasonable	0	7	1
	Business Continuity Management	Final Report	Reasonable	0	6	0
<b>Cross Cutting</b>	Major Capital Projects	Final Report	Reasonable	0	8	0
	Public Health Transition Arrangements	Final Report	Limited	1	2	0
	Insurance	Final Report	Reasonable	0	5	1
	Budget Management	Final Report	Reasonable	0	3	0
	Income Collection Arrangements	Final Report	Reasonable	0	7	0
	Petty Cash	Final Report	Limited	1	4	1
	Procurement Cards	Final Report	Limited	1	11	1
	External Funding	Final Report	Substantial	0	5	1
	Staff Expenses	Final Report	Reasonable	0	11	1
	iTrent Staff Expenses System Module	Final Report	Reasonable	0	11	1
	Employee Sickness Management	Draft Report	To be agreed	1	5	1
	Pensions Administration	Final Report	Reasonable	0	7	0
	Work Styles Project	Final Report	Reasonable	0	9	0
	Transport Fleet Management	Final Report	Reasonable	0	3	1
	Carbon Reduction	Final Report	Substantial	0	3	0
	Management of Mainstream Grants	Final Report	Substantial	0	5	1
<b>Fundamental Financial Systems</b>	Main Accounting System	Final Report	Reasonable	1	4	0
	Creditors/Accounts Payable	Final Report	Reasonable	0	7	6
	Debtors/Accounts Receivable	Final Report	Reasonable	0	10	1
	Cash Collection & Banking	Final Report	Reasonable	0	4	1
	Treasury Management	Final Report	Substantial	0	2	0
	Capital Accounting	Final Report	Substantial	0	0	1
	Management of Fixed Assets	Final Report	Reasonable	0	1	0
	Council Tax	Final Report	Reasonable	0	3	0
	NNDR	Final Report	Reasonable	0	7	0
	Housing & Council Tax Benefits	Final Report	Substantial	0	4	0
	Housing Rent & Debt Management	Final Report	Substantial	0	3	0
Payroll/HR	Final Report	Reasonable	0	7	0	
<b>Procurement &amp; Contract</b>	Parking Enforcement Contract	Final Report	Substantial	0	0	0

Area	Audit	Status	Assurance Level	Recommendations/Agreed Actions and Priority		
				High	Medium	Low
<b>Management</b>						
	Highways Maintenance (Minor Works)	Final Report	Limited	2	4	0
	Brighton Centre Capital Development	Final Report	Limited	4	5	0
	Sports Facilities Management	Final Report	Reasonable	0	5	0
<b>ICT</b>	Civica ICON Cash Management System	Final Report	Limited	1	8	2
	Information Sharing	Final Report	Limited	0	6	0
	Server Estate (Virtualisation, Capacity Management, Storage Management etc)	Draft Report	To be agreed	3	4	0
	IT Change Management	Final Report	Reasonable	0	4	0
	Care First Application	Final Report	Reasonable	0	3	0
	Civica Business Rates Application	Final Report	Substantial	0	4	0
	SharePoint	Draft Report	To be agreed	0	4	0
	OHMS (Housing Repairs)	Final Report	Substantial	0	4	3
	Capita SIMS and Learning Gateway	Draft Report	To be agreed	1	3	1
	ICT Service Levels, Performance & Benchmarking	Draft Report	To be agreed	1	4	0
	Payment Card Industry, Data Security Standard (PCI DSS)	Draft Report	To be agreed	1	4	0
	BACS Controls	Draft Report	To be agreed	1	4	0
	Public Sector Network (PCN)	Final Report	Substantial	0	1	1
	iTrent HR Application Review	Draft Report	To be agreed	0	7	3
<b>Service Specific</b>	Housing Local Delivery Vehicle (LDV)	Final Report	Reasonable	0	5	0
	Council Tax Support - Financial Modelling	Final Report	Substantial	0	1	0
	Council Tax support - Project Assurance	Final Report	Substantial	0	0	1
	Council Tax & Business Rates Write Offs	Final Report	Substantial	0	1	1
	Home Care Services	Final Report	Reasonable	0	3	1
	Personal Budgets & Direct Payments	Final Report	Reasonable	1	5	0
	Schools Thematic Review – Procurement	Final Report	Reasonable	0	13	0
	Schools Thematic Review – Payroll	Final Report	Reasonable	1	4	0
	Schools Thematic Review – ICT Security	Draft Report	To be agreed	2	7	1
	Schools Thematic Review – Electronic Payments to Suppliers (BACS)	Final Report	Limited	1	4	0
	Pupil Premium Funding	Final Report	Substantial	0	0	1
	Music Service	Final Report	Substantial	0	3	1
	Children's Centres (Nursery Provision)	Final Report	Reasonable	0	5	6
	Leaving Care	Final Report	Reasonable	0	8	2
	Home Education	Final Report	Substantial	0	2	0

Area	Audit	Status	Assurance Level	Recommendations/Agreed Actions and Priority		
				High	Medium	Low
	Homelessness Accommodation	Final Report	Limited	4	8	0
	On and Off Street Car Parking	Final Report	Limited	4	11	1
	Brighton Centre	Final Report	Reasonable	0	6	2
	Housing Revenue Account	Final Report	Substantial	0	0	0
	Registrars Service	Final Report	Reasonable	0	3	0
	Leasehold Service Charges	Final Report	Substantial	0	3	0
	Enforcement of Housing Estates Parking	Final Report	Limited	1	4	0
	Trading Standards	Final Report	Substantial	0	4	0
	Building Control Income	Final Report	Reasonable	0	3	4
	Development Control Income	Final Report	Substantial	0	2	0
	Licensing	Final Report	Substantial	0	2	0

**Appendix B****Definitions of Internal | Audit Assurance Levels**

<b>Level of Assurance</b>	<b>Definitions</b>
<b>Full</b>	There is a sound system of control designed to achieve the system and service objectives. Compliance with the controls is considered to be good. All major risks have been identified and are managed effectively.
<b>Substantial</b>	No significant improvements are required. Whilst there is a basically sound system of control (i.e. key controls), there are weaknesses, which put some of the system/service objectives at risk, and/or there is evidence that the level on non-compliance with some of the controls may put some of the system objectives at risk and result in possible loss or material error. Opportunities to strengthen control still exist.
<b>Reasonable</b>	The audit has identified some scope for improvement. Of existing arrangements. Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system and result in residual risk. There is therefore a need to introduce additional controls and/or improve compliance with existing controls to reduce the risk to the Council.
<b>Limited</b>	Weaknesses in the system of control and/or the level of compliance are such as to put the system objectives at risk. Controls are considered to be insufficient with the absence of at least one critical or key control. Failure to improve control or compliance will lead to an increased risk of loss or damage to the Council. Not all major risks are identified and/or being managed effectively.
<b>No</b>	Control is generally very weak or non-existent, leaving the system open to significant error or abuse and high level of residual risk to the Council. A high number of key risks remain unidentified and/or unmanaged.



**Appendix C****Recommendation/Action Priority Categories**

<b>Priority</b>	<b>Assessment</b>	<b>Timescale for Implementation</b>
<b>High</b>	<p><b>Fundamental</b> There is a <b>weakness</b> in control that represents <b>immediate</b> material risk to the City Council or a service and requires urgent attention by management.</p> <p>These issues generally merit the attention of senior management.</p>	Actions to address recommendations should in a number of cases be immediate and at least within three months.
<b>Medium</b>	<p><b>Significant</b> There is weakness in control and a <b>risk</b> of material inaccuracy/loss to the City Council or a service area and requires corrective action/attention by local management within a <b>reasonable</b> period.</p>	Should be implemented within 6 months
<b>Low/Best Practice</b>	<p><b>Merits Attention</b> Minor matters where there is a weakness or opportunity for improvement, which does not expose the service/system under review to any significant risk, but management should consider taking action.</p>	No set time period.

## **Internal Audit Charter**

### **Introduction**

This Charter sets out the terms of reference for the Internal Audit function. It defines the purpose, authority and responsibility of the Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.

The Charter will be approved annually by the Audit & Standards Committee, after consultation with the Executive Leadership Team.

The Charter will be reviewed at least annually and presented to the Audit & Standards Committee for approval.

### **Internal Audit Purpose**

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework 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."*

In a local authority internal audit provides independent and objective assurance to the Council, its Members, the Executive Leadership Team (ELT) and in particular to the Chief Financial Officer to help discharge her responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations (2011) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems.

### **Authority**

The Head of Audit & Business Risk is the Council's 'Chief Audit Executive' as defined in the Public Sector Internal Audit Standards.

For the purpose of compliance with the Public Sector Internal Audit Standards, 'the Board' is defined as the Audit & Standards Committee and 'Senior Management' the Executive Leadership Team (ELT) and Corporate Management Team (CMT).

Internal Audit has unrestricted access to all Council and partner records and information, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Internal Audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

Any restriction (management or other) on the scope of Internal Audit's activities will be reported to the Audit & Standards Committee.

Internal Audit will consider all requests from the External Auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised and which External Audit would need to discharge their responsibilities.

### **Internal Audit Responsibility**

The Council's Head of Audit & Business Risk is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Audit & Standards Committee, on the adequacy and the effectiveness of the internal control system for the whole Council. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources;
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures;
- To carry out assurance and consultancy activities across all aspects of the Council's business based on a risk-based plan;
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes;
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process;
- To provide responsive, challenging and informative advice and support to management on risk management, controls and governance to management;
- To provide clear and concise internal audit reports to support management in implementing agreed actions to improve services and risk management, control and governance processes;
- To investigate all cases of suspected financial irregularity, fraud or corruption in accordance with agreed procedures; and

- To promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud.

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Council in organisations wholly owned by the Council, such as Local Authority Trading Companies. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

### **Internal Audit Reporting**

The UK Public Sector Internal Audit Standards require the Head of Audit & Business Risk to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Annual Audit Plan that includes the Audit Charter are reported annually to the Executive Leadership Team (ELT) and the Audit & Standards Committee. These are approved by the Audit & Standards Committee;
- The annual Internal Audit Plan is compiled by the Head of Audit & Business Risk taking account of the Council's risk framework and after input from members of the Executive Leadership Team and Corporate Management Team;
- The internal audit budget is reported to the Policy & Resources Committee and Full Council for approval annually as part of the overall Council budget;
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Audit & Business Risk) and the independence of internal audit will be reported annually to the Audit & Standards Committee. The approach to providing resource is set out in the Internal Audit Strategy;
- Performance against the Annual Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to the Executive Leadership Team and Audit & Standards Committee on a regular basis throughout the financial year;
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit & Standards Committee;
- Results from the quality assurance and improvement programme will be reported to both the Executive Leadership Team and Audit & Standards Committee; and

- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to the Executive Leadership Team and Audit & Standards Committee and will be included in the Head of Audit & Business Risk's Annual Internal Audit Report and Opinion.. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

## **Internal Audit Independence**

The Head of Audit & Business Risk has free and unfettered access to the following:

- Chief Executive;
- Director of Finance & Resources (Section 151 Officer);
- Head of Law (Monitoring Officer);
- External Audit;
- Chair of the Audit & Standards Committee; and
- All other members of the Executive Leadership and Corporate Management Teams.

The independence of the Head of Audit & Business Risk is further safeguarded by ensuring that his annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the Audit & Standards Committee contribute to, and/or review the appraisal of the Head of Audit & Business Risk.

All Council and contractor Internal Audit staff are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit & Standards Committee. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for a period of at least 12 months.

## External Audit

External Audit fulfils a statutory duty. Effective collaboration between Internal Audit and External Audit will help to ensure effective and efficient audit coverage and resolution of issues of mutual concern. Internal Audit and External Audit meet periodically to plan respective audits, discuss and share potential issues of concern to both arising from audit work.

## Due Professional Care

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards;
- All Council Policies and Procedures; and
  
- All relevant legislation.

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. The Head of Audit & Business Risk is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

