

INTERNAL AUDIT CHARTER AND INTERNAL AUDIT STRATEGY 2013/14

Cabinet Member Cllr Neal Davey
Responsible Officer Audit Team Leader

Reason for Report: To present the Committee with the Internal Audit Strategy for the 2013/14 financial year

RECOMMENDATION(S): The Committee approves the Internal Audit Strategy for 2013/14 (Appendix A)

Relationship to Corporate & Improvement Plan: A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

Financial Implications: N/A

Legal Implications: N/A

Risk Assessment: Potential breach of the Public Sector Internal Audit Standards.

1.0 Introduction

1.1 From 1 April 2013 CIPFA (as a Relevant Internal Audit Standard Setter - RIASS) has adopted the Public Sector Internal Audit Standards (PSIAS) which encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). These are:

- Definition of Internal Auditing
- Code of Ethics and
- International standards for the Professional Practice of Internal Auditing

Additional requirements and interpretations for the UK public sector have been inserted but the integrity of the text of the mandatory elements of the IPPF has been preserved.

1.2 The PSIAS replace the *Code of Practice for Internal Audit in Local Government in the United Kingdom*, last revised in 2006. In local government, the PSIAS are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2011.

1.3 The Internal Audit Strategy is attached as Appendix A. The Internal Audit Charter will be presented at the next Audit Committee meeting on 14 May 2013 as the detailed CIPFA guidance the *Local Government Application Note*

for the United Kingdom Public Sector Internal Audit Standards is not published until 3 April 2013.

- 1.4 Previously, the Application Note was simply guidance and referred to as such. However, after discussion with DCLG with regards to what constitutes 'proper practices' in internal control as per the Accounts & Audit Regulations 2011, the status has altered so that 'proper practices' for UK local government is the PSIAS *plus* the Local Government Application Note.
- 1.5 **Therefore, the mandatory sectoral requirements for local authorities are the PSIAS as well as this Application Note and the content of both documents must be followed in order to satisfy proper internal audit practices.**
- 1.6 The former Strategy and Terms of Reference were presented to the Audit Committee and approved on 20th March 2012.

2.0 Internal Audit Charter

- 2.1 The purpose, authority and responsibility of the internal audit activity must be formally defined in an Internal Audit Charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.
- 2.2 The Internal Audit Charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.
- 2.3 The Audit Team Leader must periodically review the Internal Audit Charter and present it to senior management and the Audit Committee for approval. Final approval of the Internal Audit Charter resides with the Audit Committee.
- 2.4 The Audit Team Leader must effectively manage the internal audit activity to ensure it adds value to the organisation.
- 2.5 The internal audit activity is effectively managed when:
 - The results of the internal audit activity's work achieve the purpose and responsibility included in the Internal Audit Charter;
 - The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and
 - The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards.
- 2.6 The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

2.7 The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

3.0 Internal Audit Strategy 2013/14

3.1 The Internal Audit Strategy is the statement of how internal audit services will be delivered within Mid Devon District Council during the 2013/14 financial year to provide assurance to relevant stakeholders that the systems in place are working effectively and efficiently, enabling the Council to achieve its vision and priorities.

3.2 It describes the measures put in place to ensure compliance with the PSIA's and Internal Audit Charter. Generally speaking no major changes from what we were already doing are required. However two matters particularly are drawn to the Committee's attention.

3.3 Firstly the Audit Team Leader has put in place arrangements with other members of the Devon Audit Group (a networking group) to carry out the external assessments required by Standards 1300-1322.

3.4 Secondly the Internal Audit Team in the absence of technology-based audit techniques (CATs) and a specialist IT auditor do not fully comply with standard 1210 and in accordance with standard 1210.C1 the Audit Team Leader must inform the Committee that they partially lack the knowledge, skills, or other competencies needed to perform the Computer Network Audit for which further resource may be required.

4.0 Conclusion

4.1 Both the Internal Audit Charter and the Internal Audit Strategy 2013/14 have been prepared in accordance with the PSIA's in order to fully meet the statutory requirements laid out in sections 2 and 3 of this report.

Contact for more Information: Catherine Yandle, Audit Team Leader

Circulation of the Report: Cllr Neal Davey and Management Team

List of Background Papers: PSIA's previously circulated

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1.0 INTRODUCTION

- 1.1 This Internal Audit Strategy is the statement of how Internal Audit services will be delivered and developed within Mid Devon District Council during the 2013/14 financial year to provide assurance to relevant stakeholders that the systems in place are working effectively and efficiently, enabling the Council to achieve its vision and priorities. It describes the measures in place to ensure compliance with the PSiAs and Internal Audit Charter.
- 1.2 This strategy will be updated and approved on an annual basis by the Audit Committee in conjunction with the Strategic Audit Plan.

2.0 STRATEGIC STATEMENT

- 2.1 Internal Audit will deliver a balanced, comprehensive and proactive risk focused service in a professional and independent manner which will enable assurance to be given to the Council on its control environment, including comment upon the effective use of its available resources in achieving its objectives.

3.0 PURPOSE, AUTHORITY AND RESPONSIBILITY

- 3.1 Internal Audit will conduct an annual review of the Council's control environment. The outcome of the audits within the annual audit work plan will inform the Audit Team Leader's overall opinion on the adequacy of the Council's system of internal control, which will then feed into the Council's Annual Governance Statement.
- 3.2 Internal Audit is one of a number of areas of assurance that contribute to the Council's assurance framework and the Audit Team Leader shall provide specific comment/opinion on the adequacy of internal control and risk management to be included, unedited, within the Governance Statement.
- 3.3 The Audit Team Leader shall advise the Audit Committee on any matter of concern reported (or not reported) within the Governance Statement.
- 3.4 As per the Financial Rules, The Audit Team Leader, or her representative from Internal Audit, shall, with full regard to the Data Protection and Human Rights requirements, have authority to:
- Have access to appropriate records, premises and personnel relevant to any function under review
 - Evaluate the adequacy and effectiveness of internal controls designed to secure assets and data to assist management in preventing and deterring fraud

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- Receive any information and explanation considered necessary concerning any matter under consideration
- Require any officer or other employee or agent of the council to produce cash, stores or any other property under his/her control
- Require a timely response to any findings and recommendations contained in audit reports.

4.0 INDEPENDENCE AND OBJECTIVITY

4.1 There are a number of safeguards in place which reduce the threat to an auditor's objectivity, which are:

- All Internal Auditors complete an annual declaration of independence which highlights any relationships with individuals or companies. The Audit Team Leader then factors this information into the Audit Work Plan to ensure that any potential conflicts are avoided.
- Where an Auditor has worked in another department within the Council, this is also factored into the Audit Work Plan and the Auditor will not audit that area for a minimum of two years from the date of commencement in Internal Audit.
- The Audits within the Audit Work Plan are alternated to ensure that Auditors are not continually working on the same assignments, which ensures that the risk of over-familiarity and complacency that could influence objectivity is reduced
- Where the Audit Team Leader has been the main auditor her work is reviewed by the Head of Communities & Governance.

4.2 Internal Auditors must safeguard the information they receive in carrying out their duties. Any information gained in the course of audit work should remain confidential and there must not be any unauthorised disclosure of information unless there is a legal or professional requirement to do so. Any inappropriate disclosure of information by Internal Auditors could be a disciplinary offence.

4.3 Internal Audit operates a 'clear desk' policy to ensure that confidential information is held securely in a locked cabinet. Wherever possible, documents are held electronically, on the Internal Audit drive, to which only Internal Audit has access.

5.0 PROFICIENCY AND DUE PROFESSIONAL CARE

5.1 The Audit Team Leader is responsible for ensuring that up-to-date job descriptions exist that reflect roles and responsibilities and that person

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specifications define the required level of qualification, competency, skill, experience and personal attributes for each role within the Audit Team. The Audit Team Leader must then ensure that staff recruited that meet these criteria.

- 5.2 All Internal Audit staff identify training needs as part of the appraisal and development process and are encouraged to undertake appropriate training, including in-house courses and external seminars as relevant to support their professional development. As Internal Audit examines the whole of the control environment the aim is to ensure that the skills mix within the service reflects this wider responsibility.
- 5.3 The Audit Team Leader is a member of the Institute of Chartered Accountants in England and Wales. One Auditor is a member of the Association of Accounting Technicians and studying for membership of the Association of Chartered Certified Accountants. The other is studying for the Technician level of the Association of Accounting Technicians.
- 5.4 However the Internal Audit Team in the absence of technology-based audit techniques (CATs) and a specialist IT auditor do not fully comply with standard 1210.
- 5.5 IT Audit Training has been investigated but is expensive so it may be necessary to seek additional external resource to address this perceived shortcoming.

6.0 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

- 6.1 The Audit Team Leader provides each auditor with support and feedback, through file reviews, during the audit process.
- 6.2 A self-assessment is completed at the end of each year in accordance with guidance and paperwork from CIPFA. Performance Indicators are also monitored and reported on SPAR.
- 6.3 For the external assessment requirement the Audit Team Leader has put in place arrangements with other members of the Devon Audit Group (a networking group) to carry out the external assessments required by Standards 1300-1322.
- 6.4 As the last review for some of the Devon Audit Group members was 2008/09 some work on this for another authority may be required this year. Therefore a week has been allowed in the 2013/14 work plan for this work.
- 6.5 All the members of the Devon Audit Group are suitably qualified to carry out this work and we will not be working in pairs on each other's assessments on

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a reciprocal basis, but on a rather more random basis among the group which will ensure there is no conflict of interest.

7.0 MANAGING THE INTERNAL AUDIT ACTIVITY

- 7.1 The Audit Team Leader should prepare a risk based audit plan, which should take account of the adequacy and outcomes of the organisation's risk management, performance management and other assurance processes.
- 7.2 The Audit Team Leader is required to identify all systems operating within the Council in order to establish the full size of the audit area potentially to be covered. This is done by reference to numerous corporate documents, the Corporate Risk register and through discussion with members of Management Team. This forms the Strategic Audit Plan.
- 7.3 The Strategic Audit Plan is a 4 year rolling plan which is revised each year to take into account the new priorities and risks of the Council.
- 7.4 All areas identified in the Strategic Audit Plan are subject to an audit needs risk assessment to identify their risk level and whether or not they are to be included in the annual audit work plan.
- 7.5 The overarching objective of the Strategic Audit Plan is to provide a comprehensive programme of audits, which allows assurance to be obtained from each audit as well as from a collective whole. It is not possible to cover all aspects of the internal control system in detail every year, essentially because there are not sufficient audit resources to permit this blanket coverage, but to ensure appropriate audit scrutiny of the main areas to allow a general opinion to be obtained.
- 7.6 Both the 4 year Strategic Audit Plan and the annual Audit Work Plan are presented to the Audit Committee prior to the commencement of the financial year for approval. The Audit Team Leader will provide the Committee with regular progress against the annual Audit Work Plan as a standing item on the Audit Committee agenda.

8.0 SIGNIFICANT LOCAL AND NATIONAL ISSUES AND RISKS

- 8.1 Although an annual audit plan is formally agreed by the Management Team and Audit Committee before the commencement of the financial year, there is a contingency pot incorporated into this plan to ensure that there is sufficient flexibility to direct internal audit resources as required so that new and revised local and national issues and risks can be appropriately reviewed.

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8.2 The Audit Team Leader keeps up-to-date with such issues and risks from:

- Alerts about new legislation and government publications
- Access to Management Team, Cabinet, Scrutiny Committee, Audit Committee and Policy Development Group meeting agendas and minutes and regular update meetings with the Head of Communities & Governance
- Attendance at the Devon Audit Group Meetings
- Regular liaison with Grant Thornton
- Local, National and professional publications
- Professional reference materials/sites and CPD

9.0 NATURE OF WORK

9.1 The Council's Management is responsible for establishing the control environment in the systems and activities in which the Council operates. This should include the internal control environment, risk management, governance, securing value for money, preventing and detecting fraud or other losses and compliance with legislation and council policy.

9.2 It is important to note that Internal Audit's scope is not limited to financial systems and records, but extends to all the activities of the Council as this reflects the control environment and governance system. The areas of risk and performance management are picked up in every audit.

9.3 In order to promote the communication of risk management and control processes using a systematic and disciplined approach and also the monitoring and reporting of performance information. The Internal Audit Team has taken on the administration of SPAR.

9.4 The Internal Audit Team however is not responsible for compiling or entering performance or risk information on SPAR.

10.0 PERFORMING THE ENGAGEMENT

10.1 The Audit Team Leader is responsible for ensuring that Internal Audit resources are sufficient to meet its responsibilities and achieve its objectives. If the Audit Team Leader, or the Audit Committee, considers that the level of audit resources or the terms of reference in any way limit the scope of Internal Audit, or prejudice the ability of Internal Audit to deliver a service consistent with its statutory and related requirements, they should advise the Council accordingly.

10.2 The Internal Audit Service has finite resources and its workforce is therefore to be deployed to meet an annual Audit Work Plan that pays regard to the relative risks accepted, and levels of assurance given to the Council.

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11.0 COMMUNICATING RESULTS

- 11.1 Within 15 working days of completing the audit fieldwork, a draft report will be issued to the Manager for them to check the report for factual accuracy prior to the exit meeting. The exit meeting should be held within 2 weeks for the report to be finalised with the Manager and any other relevant staff.
- 11.2 Once the Audit Report has been finalised with the relevant Service Manager the report will then be circulated to their Head of Service, and the Chief Executive for any further comments.
- 11.3 Once this stage is complete the final report is circulated to the S151 Officer, the Members of the Audit Committee, the Finance Cabinet Member and Grant Thornton.

11.4 Audit Opinion

Each Audit report will give an opinion as to the adequacy of the control environment, which will feed into the Annual Audit Report and the Governance Statement. The overall opinion is a statement of the audit view and will be one of the following categories:

Well controlled – strong controls are in place and there is a minimal risk of serious loss or error

Adequately controlled – controls are in place but improvements would be beneficial. There is some risk of loss, fraud, impropriety or damage to reputation.

Poorly controlled – urgent systems revision is required to improve the level of control. There is a high risk of loss, fraud, impropriety or damage to reputation.

11.5 Report recommendations

When reports are issued, Service Managers are informed of areas where, in the opinion of Internal Audit, management action is required. To assist management, suggested solutions are made in the form of recommended actions. Recommendations contained within the report fall into one of the following three categories:

High Risk – This applies to audit findings, which are considered to relate to weaknesses in a fundamental control area. This may result in the breakdown of part/whole of the service and there could be the potential for fraud or irregularity. A high number of key business risks remain unidentified and/or unmanaged, i.e. control systems do not exist or do not operate effectively.

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These recommendations will need to be addressed within 3 months by management.

Medium Risk – This applies to weaknesses in the control systems, which are not considered serious but may have some impact on the service. Not all risks have been identified and/or managed effectively. These recommendations will need to be addressed within 6 months by management.

Low Risk – This applies in respect of findings, which, although relatively minor and may have little impact on the service, provide an opportunity to improve the control framework to ensure full compliance with expected controls. All major risks have been identified, planned or prioritised. These recommendations will need to be addressed within 1 year by management.

12.0 MONITORING PROGRESS

- 12.1 Following the issue of the final report, audit recommendations will be monitored to ensure that the responsible officer takes suitable action to implement recommendations as and when appropriate in accordance with the agreed target dates. This is being done via SPAR
- 12.2 The Audit Committee will have the opportunity to discuss any items arising from the audit reports as a standing agenda item (Part 2) at each Audit Committee meeting.
- 12.3 Progress against the annual Audit Work Plan will be monitored on a bimonthly basis by Management Team and the Audit Committee. In addition to this they will receive an audit recommendation exception report from the Audit Team Leader relating to those recommendations that have not been implemented by the agreed target date.
- 12.4 The Audit Team Leader will produce an Outturn report in May/June each year outlining the work completed by the Audit Service over the financial year and giving her overall opinion on the control environment.

13.0 FRAUD AND CORRUPTION

- 13.1 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management.
- 13.2 Internal Auditors will, however, be alert in their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have been occurring. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

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- 13.3 The Audit Team Leader should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for her opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.
- 13.4 The Audit Team Leader is a named contact point in the Council's 'Anti-fraud & Corruption', 'Anti-money Laundering' and 'Whistleblowing' policies.
- 13.5 Internal Audit may be requested by management to undertake work that is beyond that required to provide assurance. This may include fraud or corruption investigation, or provision of advice and guidance. Such work is subject to the availability of resources, but may assist the opinion that Internal Audit forms on the control environment.