

# Audit and Governance Committee Report



## 18 January 2012

Report of: **Audit Manager**

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To: Audit and Governance Committee

DATE: 18 January 2012

**Report No. 61/11**

Wards Affected  
All

## Internal audit strategy 2012/2013 - 2014/2015

Recommendation(s)

(a) That members approve the internal audit strategy 2012/2013 – 2014/2015

### Purpose of report

1. The purpose of this report is to put in place an approach that will enable internal audit to be managed in a way which will facilitate:
  - how the service is delivered;
  - the provision of an opinion each year on the council's control environment to support the annual governance statement;
  - the auditing of systems through audit plans in a way which affords suitable priority;
  - the identification of audit resources required to deliver an audit service which meets required professional standards; and
  - the relative allocation of resources between assurance, fraud and consultancy services.

2. The contact officer for this report is Adrianna Partridge, Audit Manager for South Oxfordshire District Council and Vale of White Horse District Council, telephone (SODC) 01491 823544 and (VWHDC) 01235 547615.

## Background

3. The requirement for an internal audit function for local authorities is implied by section 151 of the Local Government Act 1972, which specifically requires that authorities 'make arrangements for the proper administration of their financial affairs'. Regulation 6 of the Accounts and Audit Regulations 2003 more specifically requires that 'a relevant body shall maintain an adequate and effective system of internal audit of its accounting records and a system of internal control in accordance with proper internal audit practices'.
4. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 states that the head of internal audit (audit manager) must produce an audit strategy. This is a high-level statement of how the internal audit service will be delivered and should be approved, but not directed, by the audit committee.

## Definition

5. Internal audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievement of the council's objectives. It assists the council by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary.

## Delivery of the internal audit service

6. Internal audit is delivered through an in-house shared service partnership between South Oxfordshire District Council and the Vale of White Horse District Council.
7. The audit manager is responsible for ensuring that:
  - appropriate arrangements are in place to determine and plan the work to be carried out;
  - the resources and support facilities required to deliver the plan are in place; and
  - the level of service meets the required standards.
8. Attached as **Appendix A** is the internal audit charter, which outlines the team's authority and responsibilities in undertaking its internal audit work. This was approved by the audit and governance committee on 15 January 2008 and is still valid.
9. Internal audit is responsible for reporting to the audit and governance committee the outcomes of internal audit work.

## Statement on control environment

10. The audit manager is required to give an annual opinion on the council's control environment to support the annual governance statement. This means that sufficient audit work of an appropriate nature needs to be undertaken throughout the year to form such an opinion, and the necessary resources, skills and support facilities need to be provided by the council.
11. In giving the opinion, the audit manager has a responsibility to report on the extent to which the audit plan has been achieved and provide a summary of any unresolved issues.

## **Audit planning**

12. A schedule of auditable activity is maintained by the audit manager which extends across all council activities and lists a mixture of cross service, corporate risk and financial audits. Each audit is risk scored based on an assessment of exposure to financial, fraud, reputational, legal and corporate risk. Also taken into consideration are officer requests for a review, the date the area was last subject to an audit review and the last assurance rating given.
13. The current audit plan is based on a one year cycle, drawing audits from the schedule of auditable activity according to risk prioritisation scores and ensuring that non-financial areas are covered on a cyclical basis. Fundamental financial systems are subject to audit review each year, and this work is assessed by external audit and reliance placed on it where appropriate. This enables external audit to reduce the work they carry out, avoid duplication and reduces their charges to the council.
14. Separate time allocation is also allowed in the plan for fraud, consultancy activities, adhoc advice activities and follow up reviews. Audit needs will be matched to audit resources which is calculated based on the number of auditable days available in the year.

## **Audit resources**

15. The internal audit team comprises an audit manager and three auditors who all work across both sites. The audit manager is MIIA qualified and the three auditors hold the AAT, ACA and PIIA qualifications. Staff are applied to audit work making the most effective use of their skills, experience and professional knowledge.
16. Internal audit may undertake non-assurance work, at the request of the council, subject to there being no impact on the core assurance work and the availability of skills and resources and the independence of the team is not impaired.
17. All internal audit work is subject to quality assurance and performance management to ensure that all internal audit work is compliant with the relevant professional standards and that the team is meeting its aims and objectives.

## **Financial implications**

18. Financial implications (staffing costs) attached to this report are considered as part of the corporate budget setting process.

## **Legal implications**

19. None

## **Risk implications**

20. Identification of risk is an integral part of all audits.

ADRIANNA PARTRIDGE  
AUDIT MANAGER

## **INTERNAL AUDIT CHARTER**

### **INTERNAL AUDIT PROVISION**

Internal audit is delivered through a shared service partnership between South Oxfordshire District Council and the Vale of White Horse District Council. The internal audit team comprises an audit manager and three auditors who all work across both sites.

### **PURPOSE**

Internal audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievements of the councils' objectives. It assists the councils by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary.

It is management's responsibility to define and establish a control environment and a system of internal control to ensure that:

- business activities are conducted in a controlled and efficient manner;
- legal and professional requirements and management instruction and implied intentions are complied with;
- decisions are made, by those authorised, based on adequate and sound information;
- transactions, income, expenditure, liabilities and assets are completely and accurately recorded;
- assets are safeguarded;
- the risk of fraud and corruption is minimised; and
- economy, efficiency, effectiveness and quality of all operations are promoted.

Internal audit may also undertake non-assurance work, at the request of the councils, subject to there being no impact on the core assurance work and the availability of skills and resources and the independence of the team is not impaired.

Internal audit does not have responsibility for the prevention or detection of fraud and corruption. However, internal audit should make arrangements within the councils' anti-fraud and corruption policies, to be notified of all suspected or detected fraud, corruption and impropriety, to inform their opinion on the internal control environment and internal audit's work programme. In addition, internal audit should be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud or corruption may have been occurring. Through its planned audit work, internal audit will also assess whether management's control processes are adequate to identify instances of fraud and corruption.

## **AUTHORITY**

The councils have a statutory duty to maintain an adequate and effective internal audit function under the Accounts and Audit Regulations 2003 (as amended). Internal audit officers have the authority to:

- enter at all reasonable times any of the councils' premises or land; and
- access, examine and obtain all records, assets and personnel and require such information and explanations as it considers necessary to fulfil its responsibilities, including those of partner organisations.

In addition, the audit manager can directly and independently report to the chief executive and the Audit and (Corporate) Governance Committees.

## **SCOPE**

The scope of internal audit is unrestricted and extends to all operations within the councils.

## **REPORTING**

Each year internal audit prepares a risk-based annual plan in consultation with senior management. The plan is approved by the Audit and (Corporate) Governance Committees, and progress against the plan as well as other performance measures are regularly reported to the committees.

Internal audit is responsible for reporting to the Audit and (Corporate) Governance Committees the outcomes of internal audit work and presenting an annual internal audit report, providing an overall opinion on the control environment, the extent to which the audit plan has been achieved and a summary of the unresolved issues.

After each audit assignment, internal audit has a duty to report to management its findings on the control environment and risk exposure, and recommend changes for improvements where applicable. Managers are responsible for considering audit reports and taking the appropriate action to address control weaknesses. Managers can be required to attend the Audit and (Corporate) Governance Committees to report on the action proposed.

Whenever internal audit is informed of a suspected fraud or financial malpractice, it has a duty to report the matter to the section 151 officer and recommend how best to pursue the matter.

## **INDEPENDENCE**

Internal audit should be independent of the activities that it reviews to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should not have any operational responsibilities.

Audit advice and recommendations, including where internal audit has been consulted about significant changes to the internal control systems, are given without prejudice to the right of internal audit to review and make further

recommendations on the relevant policies, procedures, controls and operations at a later date.

## **STANDARDS AND RESPONSIBILITY**

The councils require internal audit to provide an effective service in accordance with professional standards. Internal audit must comply with:

- CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006; and
- Relevant guidelines laid down by other audit, accountancy or government bodies such as the Institute of Internal Auditors (IIA).

Internal audit officers abide by the IIA Code of Ethics, receive suitable training and development to maintain the appropriate skills, experience and competence, and are led by an audit manager who must hold the IIA's or equivalent professional qualification.

## **QUALITY ASSURANCE**

Internal audit has a performance management and quality assurance framework in place to demonstrate that the internal audit service is:

- meeting its aims and objectives;
- compliant with the relevant standards;
- meeting internal quality standards;
- effective, efficient, continuously improving; and
- adding value and assisting the councils in achieving its objectives.

The performance management and quality assurance framework includes:

- a set of performance measures, against which progress is monitored by the Audit and (Corporate) Governance Committees;
- seeking feedback from auditees, in order to measure the service provision and provide a focused approach to quality improvements;
- internal management quality reviews undertaken periodically to ensure compliance with the relevant standards and internal policies and procedures;
- a review process for planned audit work; and
- an action plan to implement improvements.