

**RIBBLE VALLEY BOROUGH COUNCIL**  
**REPORT TO ACCOUNTS AND AUDIT COMMITTEE**

DECISION

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Agenda Item No

meeting date: 25 NOVEMBER 2009  
title: COMPLIANCE WITH CIPFA CODE OF PRACTICE FOR INTERNAL AUDIT  
submitted by: DIRECTOR OF RESOURCES  
principal author: MICK AINSCOW

**1 PURPOSE**

1.1 To seek approval of the Internal Audit Manual incorporating the Charter and Terms of Reference, together with the Strategy of the Internal Audit Service.

**2 BACKGROUND**

2.1 The Council is required under the Accounts and Audit Regulations 2003 to make provision for internal audit in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

2.2 The Code defines standards on the way in which the Internal Audit service should be established and undertake its functions. The code is split in to eleven standards and specifically requires Internal Audit to have Terms of Reference, a Code of Ethics and a Strategy. The Director of Resources is required professionally to demonstrate adherence to the code and compliance is the subject of continual assessment by our external auditors.

2.3 A report was presented to Accounts and Audit Committee in November 2006 detailing the Internal Audit Charter, Terms of Reference, Code of Ethics and Audit Strategy. All documents were approved at the meeting.

2.4 Following on from the Audit Commissions Review of Internal Audit carried out earlier this year we have taken the opportunity to draw up a comprehensive Internal Audit Manual which incorporates the Terms of Reference, Code of Ethics etc.

**3 INTERNAL AUDIT MANUAL**

3.1 The manual documents the scope of activity and objectives of the Internal Audit Service and outlines the statutory framework under which it operates. It specifies the codes of practice and standards to which the service adheres and also provides an operating procedure and source of guidance for all audit staff.

3.2 The first few sections of the manual deal with the role of internal audit within the Council, the statutory requirement for the audit service and the control environment in which we operate.

3.3 The next part of the manual details the eleven standards contained in the CIPFA Code of Practice for Internal Audit and how these standards are adhered to at Ribble Valley. There is a detailed section on how we plan and undertake our work and the way we report our findings in order to provide a level of assurance to members on the control environment. There is a section on the methodology we use to determine the number of transactions, etc. we need to test in order to be able to provide the necessary level of assurance.

3.4 The final section of the manual looks at the resources available, the way we manage the risks of fraud and corruption, and other activities which the section carry out which do not follow the usual audit procedures.

4 CONCLUSION

4.1 The manual incorporates all areas of best practice as required by the Code of Practice under the Accounts and Audit Regulations 2003.

5 RECOMMENDED THAT COMMITTEE

5.1 Approve the Audit Manual.

MICK AINSCOW  
PRINCIPAL AUDITOR

AA23-09/MA/AC  
13 November 2009

# **RIBBLE VALLEY BOROUGH COUNCIL**



## **INTERNAL AUDIT MANUAL**

August 2009

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## 2. ABOUT THIS MANUAL

### 2.1 Purpose

The purpose of this manual is to:

- document the scope of activity and objectives of the function
- clarify the statutory and corporate framework in which the function operates
- specify the codes of practice and standards to which the function will adhere
- provide an operating procedure and source of guidance for audit staff.

### **3. DEFINITION OF INTERNAL AUDIT**

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the Council's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

**3.1** While Internal Audit primarily provides an independent and objective opinion on the control environment as a source of assurance to management, for example the Annual Governance Statement, it may also undertake other, non-assurance work, such as consultancy, at the request of the Council subject to the availability of skills and resources. Consultancy comprises the range of services, beyond Internal Audit's assurance services, provided to assist management in meeting the objectives of the Council. The nature and scope of the work may include facilitation, process design, training, advisory services and fraud work, but this list is not exhaustive.

**3.2** The Code of Practice for Internal Audit produced by The Chartered Institute of Public Finance and Accountancy (CIPFA) defines standards on the way in which the Internal Audit Service should be established and undertake its functions. There are 11 standards and these are specifically detailed and addressed in the Charter and Terms of Reference section of this manual.

#### 4. DEFINITION OF CONTROL ENVIRONMENT

The **control environment** comprises the Council's policies, procedures and operations in place to:

- (a) establish, and monitor the achievement of, the Council's objectives
- (b) identify, assess and manage the risks to achieving the Council's objectives
- (c) facilitate policy and decision making
- (d) ensure the economical, effective and efficient use of resources
- (e) ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations
- (f) safeguard the Council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption
- (g) ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes. It encompasses elements of corporate governance and risk management.

## **5. REQUIREMENT FOR INTERNAL AUDIT**

- 5.1** The requirement is derived from section 151 of the Local Government Act 1972. All principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2006 in England must “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 Internal Audit practices”.

## **6. INTERNAL AUDIT CHARTER & TERMS OF REFERENCE**

### **6.1 Responsibilities and Objectives**

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the Council's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

### **6.2 Reporting Lines**

Internal Audit forms part of the Department of Resources. The Principal Auditor reports directly to the Financial Services Manager. The Council has an Accounts and Audit Committee and the Principal Auditor reports to the Committee on a quarterly basis. The report includes an 'opinion' from the Principal Auditor on the standard of the internal control within the authority. The Accounts and Audit Committee is responsible for endorsing the Annual Audit Plan and the quarterly reports from the Principal Auditor showing progress against the Plan through a summary of audit work over the period.

### **6.3 Statutory Role**

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2006, which state in respect of Internal Audit that:

"A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices, and any officer or member of that body shall, if the body requires:

- Make available such documents of the body which relate to its accounting and other records as appear to be necessary for the purpose of the audit; and
- Supply the body with such information and explanation as the body considers necessary for that purpose."

The statutory role is recognised and endorsed within the Council's Financial Regulations, which provide the authority for access to officers, members, documents and records and to require information and explanation as necessary.

## **6.4 Internal Audit Standards**

There is a statutory requirement for Internal Audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect 'the Standards' for local authority Internal Audit. The guidance accompanying the Accounts and Audit Regulations 2006 makes it clear that the Standards are those shown in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The CIPFA Standards have been adopted by Internal Audit.

### **6.4.1 Standard 1 – Scope of Internal Audit**

The scope for Internal Audit is 'the control environment comprising risk management, control and governance'. This means that the scope of Internal Audit includes all of the Council's operations, resources, services and responsibilities in relation to other bodies. This description shows the very wide potential scope of Internal Audit work. In order to turn this generic description into actual subjects for audit, the Principal Auditor uses a Risk Assessment Method, which allows all high-risk subjects to be identified. Although this process inevitably identifies the Councils fundamental financial systems as being 'high risk', other non-financial systems and functions are also identified as important areas for review by Internal Audit.

### **6.4.2 Standard 2 – Independence**

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations. Where internal auditors have operational responsibilities e.g. risk register, insurance, they will not complete any audit work on any of the operational areas that they work on.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Principal Auditor needs to have continual direct access to Council records, officers and reports and the ability to report independently and impartially if required. Accountability for the response to the advice and recommendations of Internal Audit lies with the Directors and Managers, who either accept and implement the advice or reject it. Where recommendations are rejected, the principal auditor reports the details to Accounts and Audit Committee.

### 6.4.3 Standard 3 – Ethics

This Code of Ethics sets the minimum standards for the performance and conduct of Internal Audit staff. It is intended to clarify the standards of conduct expected from all Internal Auditors when carrying out their duties. This code applies to all staff responsible for delivering Internal Audit within Ribble Valley Borough Council but does not supersede or replace the requirement on individuals to comply with ethical codes issued by professional institutes of which they are members or student members and any organisational codes of ethics or conduct. There are four main principles of the Code of Ethics:

- Integrity
- Objectivity
- Competence
- Confidentiality

#### *Integrity*

All Internal Auditors should demonstrate integrity in all aspects of their work. The relationship with colleagues and external contacts should be one of honesty and fairness. This establishes an environment of trust, which provides the basis for reliance on all activities carried out by the Internal Audit Team.

#### *Objectivity*

Objectivity is a state of mind that has regard to all considerations relevant to the activity or process being examined without being unduly influenced by personal interest or the views of others. Internal Auditors should display professional objectivity when providing opinions, assessments and recommendations.

#### *Competence*

Internal Auditors should apply the knowledge, skills and experience needed in the performance of their duties. They should carry out their work in accordance with local government standards contained within the Code of Practice. They should not accept or perform work that they are not competent to undertake unless they receive adequate advice and support to carry out the work completely.

#### *Confidentiality*

Internal Auditors must safeguard the information they receive in carrying out their duties. There must not be any unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of audit duties must not be used to effect personal gain.

#### 6.4.4 Standard 4 – Audit Committees

At its meeting on 25 April 2006, the Council approved the setting up of a separate Accounts and Audit Committee in line with CIPFA guidance and that of the Council's external auditors, PricewaterhouseCoopers.

The purpose of the Accounts and Audit Committee is to provide independent assurance on the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it effects the Council's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

The Committee will deal with

- Internal audit – the adequacy of internal controls as a contribution to the proper economic, efficient and effective use of our resources;
- External audit – to receive the reports of the external auditors appointed by the Audit Commission for England and Wales;
- Matters relating to the overall financial accounts of the Council; and
- Matters relating to Corporate Governance such as Standing Orders, Codes of Conduct, Delegation and the Annual Governance Statement.

The terms of reference as approved at the Annual meeting of the Council on 9 May 2006 are as follows:

1. To review all matters relating to Internal and External Audit. The Committee will have the right of access to all information it considers necessary and can consult directly with Internal and External Auditors.
2. To monitor arrangements for discharging the Council's responsibilities for efficient and effective financial and operational resource management. In pursuing this aim, it will consider: -
  - the soundness, adequacy and application of controls;
  - compliance with policies, procedures and statutory requirements;
  - arrangements for safeguarding the Council's assets and interests;
  - the integrity and reliability of management information and financial records;
  - the economic, efficient and effective use of resources.
3. To approve the annual Statement of Accounts and receive the ISA260 report under the Account and Audit Regulations 1996.
4. To approve the Audit Plan of the External Auditor.

5. To monitor the External Auditor's progress with the Annual Plan, including his/her comments on the Best Value Performance Plan and the production of agreed outputs.
6. To approve the Annual Internal Audit Plan.
7. To monitor Internal Audit progress with the Annual Audit Plan, evaluating the effectiveness of Internal Audit and the use of Audit resources and recommending adjustments to the Internal Audit Plan.
8. To review and comment upon liaison arrangements between Internal and External Audit with a view to optimising the effective deployment of Audit resources.
9. To evaluate the adequacy and effectiveness of the Council's financial and operational policies and procedures including financial and accounting management through discussions with the External Auditors, Internal Auditors, and appropriate officers.
10. To receive and review the findings of both External and Internal Audit examinations and to ensure that management takes appropriate action to implement agreed recommendations and to remedy any internal accounting, organisational and operational control weaknesses identified.
11. To receive and comment upon the annual Internal Audit Report and Annual Governance Statement.
12. To consider and approve the Council's self assessment of performance relating to Comprehensive Performance Assessments or similar inspections by the Audit Commission.
13. To annually monitor the effectiveness of the Code of Corporate Governance.
14. To refer directly to the Council any matters it shall see fit.
15. With the Council's Monitoring Officer, to monitor and review the operation of the Constitution to ensure the aims and principles of the Constitution are given full effect.
16. To consider and approve amendments to the Council's Financial Regulations and Contractual Standing Orders.
17. To liaise with the Independent Remuneration Panel on the Members Allowances Scheme.

#### 6.4.5 Standard 5 – Relationships

The Principal Auditor will manage relationships to ensure that there is clarity on issues such as:

- The nature of the relationship, and its objectives
- The responsibilities, expectations and objectives of each party

An important objective is to ensure that internal audit's plans and activities are co-ordinated with those of other parties to achieve the most effective audit coverage and to minimise duplication.

##### Relationships with elected members

The Principal Auditor will liaise with the Accounts and Audit Committee to establish and maintain good working relationships and channels of communication with members. The Committee may periodically meet with the Principal Auditor, with no other officers present, in order to facilitate a full and frank discussion of matters of concern. Such meetings may be called by the Committee or requested by the Principal Auditor.

##### Relationships with managers

Management and staff at all levels of the Council need complete confidence in the integrity, independence and capability of Internal Audit. The Principal Auditor will preserve the privileged nature of the relationship between Internal Auditors and managers, and will protect the confidentiality of information gained in the course of audit work (unless this would prevent Internal Audit meeting its reporting responsibilities to the Council).

Internal audit's work should provide management with assurance and identify opportunities for improvements. The Principal Auditor will ensure that Internal Audit work addresses both of these aspects, without compromising Internal Audit's professional responsibilities.

Co-operative relationships with management will enhance Internal Audit's ability to achieve its objectives, but should not dilute Internal Audit's responsibility for reporting control issues to those charged with governance. Audit work – and especially its timing – will be planned in conjunction with management to minimise abortive work and time unless this might be seen as inhibiting the "challenge" aspect of audit work, or where unannounced visits are necessary.

The Principal Auditor will consult management with regard to the audit planning process in order to have a clear understanding of management's priorities. This will involve periodic meetings with the Chief Executive, Directors and Managers. Ad hoc meetings will take place when necessary and plans revised to reflect the need for Internal Audit work to focus on emerging issues or concerns.

##### Relationships with external auditors

Internal audit is an independent assurance function within the Council, whereas external audit has to give independent opinions on the Council's financial

statements and on its arrangements for providing value for money. The relationship between internal and external audit needs to take account of these differing roles and responsibilities.

The Principal Auditor will meet periodically with the nominated external audit representative to consult on and co-ordinate their respective plans and, particularly, to discuss how work can be tailored to satisfy each parties' responsibilities in areas of common interest. Equally importantly, such meetings are an opportunity to discuss matters of mutual interest and to help develop both parties' understanding of the Council and best practice.

### **Relationships with other regulators and inspectors**

The Principal Auditor will seek to establish a dialogue with the agencies that may interact with the Council, with a view to exchanging relevant information.

#### 6.4.6 Standard 6 – Staffing, Training and Continuing Professional Development

The Principal Auditor has a wide experience of Internal Audit and is responsible for ensuring that staff are recruited and trained to the appropriate skill level to deliver the audit plan. Staff members are encouraged to continuously develop both professionally and personally, to respond to changing demands on audit skills.

The Senior Auditor is a Member of the Association of Accounting Technicians (MAAT) and currently studying towards the full CIPFA qualification.

The Audit Technician is currently studying towards membership of the Association of Accounting Technicians.

The Clerical Assistant is part-time and provides admin support to the Principal Auditor.

#### Training

Internal Audit supports the need for training and development on both a professional and technical level. Technical training, involving courses or seminars are undertaken as available within the limitations of the Council's training budget. Ongoing management of Internal Audit training is the responsibility of the Principal Auditor. These responsibilities include:

- ensuring training requirements are regularly reviewed
- identifying suitable training providers to meet training needs
- monitoring the quality and effectiveness of the training provided.

#### Continuing Professional Development

All audit staff need to maintain their competence and standards as time progresses. This is necessary in order to ensure that the skills available continue to meet the needs of the Council as new developments change the shape of the delivery of the service, and new techniques and approaches enhance the role that internal audit plays in promoting efficient, effective and economic management and control of risk.

On-going development of internal audit staff is achieved in a number of ways:

- formal audit training courses – particularly those which address new developments
- attending audit conferences/ seminars
- developing additional skills relevant to the work of the section – risk management, value for money, computer audit, etc.
- carrying out assignments across the whole range of council functions and the undertaking of different types of audit – full systems, regularity, investigatory, fraud, etc.

Annual evaluations are carried out for internal audit staff which look at areas such as technical skills, meeting of targets, due care, ethical responsibilities, etc. These evaluations highlight any areas of weakness and identify any areas where further training may be required.

#### 6.4.7 Standard 7 – Audit Strategy and Planning

The Council's risk management process is concerned with the identification of existing or emerging risks which may prevent the Council from achieving its stated objectives and ensuring that internal controls are in place to manage or mitigate those risks where appropriate.

The Council's Risk Management Policy clarifies the Council's overall approach to the level of risk acceptance ('Risk Appetite'). Risk management is about helping to manage and control risk rather than to eliminate it. It is the effective treatment of threats and opportunities in order to enhance the delivery of Council services.

Management is responsible for the internal control systems that enable the Council to meet its objectives and deliver services efficiently and effectively. Its role is to identify risks to the service and to maintain an effective system of internal control to mitigate these risks.

The Internal Audit strategy is concerned with providing assurance that risks are properly identified, continuously monitored and are managed or mitigated, where possible or appropriate, by means of effective internal controls.

The Principal Auditor will prepare an annual risk-based audit plan designed to implement the audit strategy which takes account of the Council's risk management process and Internal Audit work will be prioritised accordingly.

#### The Audit Strategy and Plan of Audit Reviews

The Audit Strategy comprises two parts.

**Part A** deals with how the Audit Strategy will be delivered and includes:

- Arrangements for the provision of the audit service
- How Internal Audit will provide assurance for the Annual Governance Statement
- Details of the resources and skills required to deliver the Audit Strategy

**Part B** deals with the more detailed plan of the assignments/ reviews to be carried out during the period of the plan and includes:

- A risk assessment prioritising Internal Audit work
- A detailed timetable for the implementation of the audit work

Parts A & B of the current Audit Strategy can be found on pages 18 - 22.

## **PLANNED AUDIT REVIEW PROCEDURE**

Planned audits will be completed in accordance with the strategic audit plan .

Internal Audit will, where possible, consult management as to the timing of audit work so as to minimise disruption to Services/ Functions under review.

Audit reviews which will form the basis of the annual audit opinion are undertaken using a risk-based systematic approach.

In order to complete the review Audit will hold discussions as appropriate with relevant staff/ officers and review any relevant documents and records. Audit will seek to minimise operational disruption during the process. The prompt production of all information requested by Audit will help to reduce disruption.

Within 10 working days of the completion of the review, Audit will issue a draft report to the relevant officer and manager.

Within 10 working days from the issue of the draft report management will provide Audit with a formal response to any recommendations made.

Within 5 working days of the receipt of Management response to the recommendations, Audit will issue a final audit report incorporating management's responses to the Director, Manager and function officer responsible for the activity under review. Management is encouraged to distribute reports internally as appropriate with due regard to issues of confidentiality.

## **UNPLANNED AUDIT REVIEW PROCEDURE**

In the event that an ad hoc audit review is required, which does not form part of the strategic audit plan, Directors/ Managers should approach either the Director of Resources or the Principal Auditor to request an audit in a particular area.

The Principal Auditor may request the approval of the Chief Executive if the request will affect the delivery of the audit strategy and plan of audit reviews.

## **AUDIT STRATEGY**

### **Introduction**

Internal Audit will produce a strategic audit plan that attempts to identify all audits that can be undertaken. A plan will then be determined over what period of time all identified audits will be subject to a review. A risk assessment will determine which areas will be audited on an annual basis and which will be audited every two years. This approach will be linked to continuous planning. An annual assessment of risk will continuously update each years plan.

## PART A

### Arrangements for the provision of the service

The Principal Auditor will determine whether it is considered that the resources available are sufficient to allow a robust opinion on the state of the internal control environment. If, in the opinion of the Principal Auditor insufficient resources are made available, he will initially report to the Responsible Financial Officer and/ or the Council's Accounts and Audit Committee. The report may recommend the provision of additional resources to review the identified risks or request a formal acceptance that an increased level of risk must be borne by the Council.

### Annual Governance Statement – provision of assurance

Internal Audit, with others (management, Responsible Finance Officer, Monitoring Officer, external audit, and other review agencies), will provide assurance that proper practices have been followed in producing the Annual Governance Statement (AGS).

The Principal Auditor will provide an opinion on the overall adequacy and effectiveness of the Council's internal control environment, providing details of any weaknesses that qualify his opinion and bringing to the attention of the Council any issues particularly relevant to the preparation of the AGS.

Internal Audit's opinion is based upon:

- a) Reviews carried out during the period by:
  - Inspectorates
  - The Audit Commission acting as External Auditor or Regulator
  - Internal Audit
- b) The analysis and verification of information provided by management in the AGS self-certification exercise.
- c) Any other information which is material to the opinion.

However, the AGS is a broad reflection of the whole governance of the authority and it is important to emphasise that the responsibility rests with those charged with governance – the most senior member and most senior officer of the authority.

## Resources and skills required to deliver the strategy

Under the control of the Principal Auditor, the service will be provided by:

- The Principal Auditor
- Two full time permanent Internal Auditors (Senior Auditor & Audit Technician)
- One part time Clerical Assistant.

The Principal Auditor will liaise closely with the Audit Commission to ensure that full account is taken of the coverage of its activities.

The Principal Auditor will calculate the anticipated internal resources available for the period under question based on the total available days, the number of staff in post and taking account of annual leave, bank holidays and training etc.

To monitor and control the plan delivery, audit staff utilise a time recording system. Analysis of staff time is produced, which allows comparison of actual output against the audit plan at individual and total level.

## PART B

### Risk assessment prioritising Internal Audit work

The model used by the Principal Auditor to assess the risk and thereby determine the entities to be audited is documented in section 13 of this manual. Where applicable, guidance has been provided on the assessment of any factors that require subjective judgement.

Individual audit assignments are conducted on a risk-based assessment and take account of:

- Issues arising in the risk assessment model from which the entire audit plan is derived.
- Risks identified by Service Heads in periodic Service Plans.
- Discussions with staff performing/ responsible for, the audited activity
- Audit's opinion of system(s) controlling the activity
- Audit Commission, audit coverage requirements.

## Detailed timetable for the implementation of the audit plan

Having obtained the results of the risk assessment process and determined the resources at the disposal of the Principal Auditor, a timetable of the audit plan for the financial year ahead is made.

Contingency time is set aside to give Members, Directors and Service Managers the opportunity to request additional audit services during the year, looking at activities not specifically included in the main audit plan. This may include investigations, value for money work or service reviews.

## Approval of the Audit Plan

The Principal Auditor will ensure that the Audit Plan is presented to Accounts and Audit Committee for approval in March of each year.

## Carrying out Audit work

Reviews carried out will meet the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government. The annual programme of work agreed by Accounts and Audit Committee will be carried out to these standards. File reviews will be carried out to ensure that standards are met.

Auditors will aim to complete all tasks within the specified timescales. All reports will be reviewed and authorised by the Principal Auditor. Except where agreed otherwise, draft reports will be issued within 10 days of completion of fieldwork and final reports within 5 days of receipt of an acceptable written response to the draft report.

Internal Audit reviews will be followed up at least annually to ensure that accepted recommendations have been implemented and are working effectively. The results of follow-up work will be reported to Accounts and Audit Committee.

Internal Audit staff will conduct themselves in accordance with the Council's Code of conduct and applicable professional standards.

The approach to achieve the strategy will be based around the provision of work within two distinct categories:

- Financial and key business systems
- Operational activities.

### *Financial and key business systems*

This relates to a core programme of internal control reviews. These reviews are based on the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government and provide much of the evidence to support the annual opinion on the adequacy and effectiveness of internal control. The work will be planned to ensure, as far as is possible, that every system will be audited annually.

### *Operational activities*

These reviews supplement the programme of internal control reviews by evaluating the day to day application of internal controls. It also includes audit work that goes beyond the systems audit approach and proactively interrogates data and information to detect potential fraud and abuse as well as reactively investigating matters drawn to the Internal Audit's attention either through the Council's whistleblowing procedure, management or staff contact or routine audit work.

## **RISK ASSESSMENT MODEL & AUDIT PLAN**

### **Introduction**

A number of factors are considered as material to the risk assessment upon which the decision to audit Council entities or systems, as part of the audit plan, is based as follows:

### **Materiality**

Materiality is the concept of determining the level of significance above which areas of activity are sufficiently important to merit audit interest, and subsequently deciding what degree of control weakness or proven error will trigger management action. Materiality is related to:

- the number and value of transactions passing through a system
- the need for particular staff to demonstrate that they meet the highest standards of probity
- for particular processes to be completely error free
- the risk to the authority's reputation of even a small lapse in standards.

## **Business Risk**

There is a range of factors that can be categorised as business risk as follows:

- The direct relationship between a particular activity and the Council's stated objectives. This will be evidenced by inclusion in the Council's corporate and/ or business service plans, or the activity being subject to external inspection.
- The extent to which managers have embraced the principles of good risk management and have robust corporate governance arrangements will also be factors in determining the relative business risk of any particular activity.
- The opinion of senior managers is vital in assessing the business risk associated with various activities. Senior managers will identify business risk and any emerging risks when completing Service Plans.
- Senior managers are required to provide assurance statements in support of the authority's Annual Governance Statement and the Principal Auditor will use such statements to inform the risk assessment.

## **Previous audit experience**

The previous experience of auditors will be taken into account in producing the risk assessment. This will be based on discussions with service managers, routine monitoring of planned activity and previous internal or external audits, and the opinions expressed in audit reports.

## **Previous audit activity**

The date on which any previous audit was conducted is factored into the risk assessment. The Principal Auditor will measure the risk caused by a lack of recent audit coverage.

## **Fraud and Corruption**

The potential for the area under review to be the subject of fraud or corruption will also be assessed and account will be taken of previous instances of fraud, irregularity and corruption.

Fraud and corruption is one part of the risk assessment. If any area is identified as a high risk for fraud and corruption then any review of that area will highlight the controls in place to reduce the risk.

## 6.4.8 Standard 8 – Undertaking Audit Work

### PREPARATION FOR THE AUDIT

An audit brief has been prepared for each audit assignment, which determines the scope and objectives of the audit review and identifies how the audit is to be undertaken. The Principal Auditor prepares all audit briefing sheets, which are located at the front of the relevant audit file.

A copy of the brief should be sent to the client prior to the commencement of the audit work. This is to ensure that the terms and details of the audit are agreed and understood. The client is able to comment on the brief and request if they would like the audit to cover any other areas.

### RESEARCH

It is essential for the relevant auditor to gain an understanding of the area under review. Sources of information include:

- audit files and working papers
- any follow up action from past reviews
- relevant legislation
- RVBC policy documents, financial regulations, etc.
- committee reports

### WORKING PAPERS AND FILES

Working papers provide the essential evidence on which any audit report is based. Working papers should include all tests, documents, analyses, etc. gathered during the audit. They should:

- record the work done and evidence obtained
- provide details of any problems encountered
- support the conclusions and recommendations in the report
- create background and reference material for future audits
- be legible
- be concise, but with sufficient detail
- cross-reference to control objectives/hazards where applicable

Details of all testing carried out should clearly explain what the test objective was, any problems encountered, and an opinion on whether the controls in place were effective or not.

## AUDIT FILES

All audit files are structured and properly maintained. Each file includes:

- audit briefing sheet
- audit reports
- any relevant correspondence
- working papers, tests, etc.
- details of any follow-up action
- review by Principal Auditor where appropriate

Audit files are maintained securely at all times.

## SYSTEMS AUDITS

When carrying out a systems audit the auditor is concerned with evaluating the systems of internal control.

## COMPLIANCE TESTING

Compliance testing should be used for ALL system audits. This test provides evidence about the operation of internal controls, as it is the control which is being tested. An assessment should be made after each as to whether the control is operating effectively or not. If any test exposes weaknesses, these should be fully investigated and controls tightened as appropriate.

All controls in respect of the main financial systems audits have been risk scored – high, medium, low, with the amount of testing carried out directly related to the risk.

NUMBER OF ITEMS IN POPULATION	NUMBER OF ITEMS TO TEST		
	HIGH RISK	MEDIUM RISK	LOW RISK
5000 +	50	40	30
2501 - 4999	40	30	25
1001 - 2500	30	25	20
501 - 1000	25	20	15
101 - 500	20	15	10
100 or less	15	10	5

Having looked up from the table how many items to test, the following calculation should be done to ascertain the frequency of testing:

$$\frac{\text{Actual Number of items in population}}{\text{Number of items to test}}$$

Then using a list of the items in the population check every xth transaction, etc. starting from x.

Where, from the sample tested, an error rate in excess of 10% of the number sampled is found then a further sample will be done to see if the error rate remains the same. If error rate still exceeds 10% this will be reported as a control weakness.

To evidence the tests copies should be taken of relevant documents as follows:

- High Risk – 6 copies as evidence
- Medium Risk – 4 copies as evidence
- Low Risk – 2 copies as evidence

All working papers/test analyses should clearly state to which control they relate and what the test is designed to demonstrate. Cross-reference all test papers back to matrix. Tests should relate to transactions, etc over the preceding 12 months.

## PROBITY AND REGULARITY AUDITS

Substantive testing should be used for all probity and regularity audits, and is designed to give direct evidence as to the completeness, accuracy and validity of records.

NUMBER OF ITEMS IN POPULATION	NUMBER OF ITEMS TO TEST
501 +	50
401 – 500	40
301 – 400	30
101 – 300	25
100 or less	20 or however many there are if less than 20

Having looked up from the table how many items to test, the following calculation should be done to ascertain the frequency of testing:

$$\frac{\text{Actual Number of items in population}}{\text{Number of items to test}}$$

Then using a list of the items in the population check every xth transaction, etc. starting from x.

Where, from the sample tested, an error rate in excess of 10% of the number sampled is found then a further sample will be done to see if the error rate remains the same. If error rate still exceeds 10% this will be reported as a control weakness.

To evidence the testing take 2 copies of the relevant documents to attach to test papers. All working papers/test analyses should clearly state what they are designed to achieve. Tests should relate to transactions, etc over the preceding 12 months.

### **VALUE FOR MONEY (VFM) AUDITING**

These audits are designed to evaluate an operational area, examining the method of service delivery to test the resource inputs and outputs. Such a review focuses on the effective and efficient use of resources to ensure the most economic output at the right quality. The primary responsibility for achieving good VFM lies with management, but Internal Audit has a key role in helping to discharge this responsibility.

### **FRAUD INVESTIGATION**

The primary responsibility for the prevention and detection of fraud and corruption rests with management, it is an inherent part of every auditor's duties to be aware of the potential for fraud in the ongoing conduct of their duties.

The investigations must be properly planned to achieve the desired outcome. All information is treated in the strictest confidence and all audit evidence is to a high standard. Any interviews, which are undertaken by audit, must be compliant with the Police and Criminal Evidence Act. The Council has adopted a strategy to safeguard against fraud and corruption, which must be observed during all investigations.

Once the fraud investigation is completed the nature of the fraud should be reviewed and the system evaluated and controls introduced to ensure that it is not possible to repeat the fraud in the future.

#### 6.4.9 Standard 9 - Due Professional Care

Internal Audit performs its duties with integrity, diligence, competence, care and skill to a level sufficient to demonstrate due care. All Internal Audit staff should maintain a sufficient level of objectivity when performing audits. Following a review Internal Audit can normally provide a reasonable assurance regarding the outcome, however not an absolute assurance.

To demonstrate that due care has been exercised, Internal Audit ensures that sufficient evidence exists to show that work has been performed in a way, which is consistent with the CIPFA standards. Internal Audit ensures that all staff are skilled in dealing with people and in effective communication both oral and written.

Internal Audit ensures that it demonstrates a high standard of professional conduct at all times, by maintaining an impartial view and avoiding conflicts of interest. The maintenance and monitoring of the overall quality and professional performance standards of the Internal Audit section is the responsibility of the Principal Auditor.

#### 6.4.10 Standard 10 - Reporting

The audit report is an important part of the whole audit process and the culmination of the work undertaken. It communicates the results of the audit review in a clear, concise and factual manner. Recommendations are made where appropriate and given a priority – High, Medium, Low. In relation to systems audits the report also gives a control assurance, which is the Audit opinion on the system. The confidentiality of internal audit reports depends upon their nature.

##### Principal objectives

- To alert Directors and Service Managers as soon as possible to matters of significance arising from the audit.
- To advise, by way of recommendation, on changes leading to improvements in systems of control.
- To provide a formal documented record of issues raised by the audit and, where appropriate, agreement reached with Directors and their Service Managers for the implementation of agreed actions to improve systems of control.

##### Attainment of objectives

In order to achieve these objectives audit reports will:

- be completed on an exception basis. Only those with control weaknesses will be reported upon in detail.
- be written in a style that allows the recipient to easily understand and assess its value in the minimum of time.
- clearly state the scope, objectives and areas of audit undertaken.
- be based only on relevant facts and information which are documented in working papers.
- draw conclusions from the factual information presented.
- in making recommendations, reflect the materiality and risks involved in each point and take account of views and practical comments expressed by officers during the audit and final discussions.

## Types of Audit Report

There are two types of audit report:

- Draft Report – promotes discussions on any recommendations
- Final Report – once all matters have been agreed at draft report stage.

I would not expect a draft report to be issued where there are no recommendations arising from the review. In all cases where recommendations are made – irrespective of their priority – a draft report should be sent to the client requesting any comments/discussions prior to the issue of the final report. A timescale of 2 weeks is in place for any feedback on recommendations otherwise the draft report will be issued as final. The auditor will however actively seek feedback from the client if it is not forthcoming.

The Principal Auditor reviews all draft reports before they are sent to the client. Once feedback is received from the client this can be incorporated into the final report. If any of the recommendations are not agreed the reasons should be detailed in the report. The Principal Auditor checks all final reports prior to issue and decides on the distribution. Reports produced by the Principal Auditor are reviewed by the Director of Resources.

## Format of Audit Reports

An “Internal Audit Report” will be issued following the completion of all audits and will generally follow the following format:

1. Introduction
2. Scope and Objectives
3. Findings/ Recommendations
4. Conclusions/ Audit Opinion
5. Action Plan (giving dates for implementation of accepted recommendations)
6. Appendix – Summary of detailed testing (if appropriate and relevant).

All information detailed under “findings and recommendations” will be factual and capable of verification.

Matters arising during the audit and dealt with immediately by management will be included in the report.

It should be noted that, although the format will be followed, individual audits may be reported on differently as it will depend on the type of audit and findings.

## Audit recommendations

It is the nature of audit work that some recommendations are regarded as more important than others. Where Internal Audit is of the opinion that a recommendation is rated as High Priority, i.e. that the need is for it to be addressed immediately, it will show that in the report. It is to be expected that any such recommendation will have been flagged up to the Manager as the audit progressed.

Recommendations will be graded as High/ Medium/ Low Priority as follows:

Grading	Definition
High Priority	Major risk requiring action by the time the final report is issued.
Medium Priority	Medium risk requiring action within six months of the issue of the draft report.
Low Priority	Change to achieve best practice by a date to be agreed with the Manager.

## Levels of Assurance

In the conclusions section of every audit report will be a statement as to the level of assurance we feel we can place on the effectiveness of the systems and controls in place within the particular audited activity. These levels of assurance are as follows:

Level 4	Substantial		The Authority can place high levels of reliance on the arrangements/ controls in place. Best practice is demonstrated in some or all areas.
Level 3	Reasonable		The Authority can place reasonable (i.e. sufficient) reliance on the arrangements/ controls in place. Only relatively minor control weaknesses exist.
Level 2	Limited		The Authority can place only limited reliance on the arrangements/ controls in place. Significant control issues need to be resolved.
Level 1	Minimal		The Authority cannot place sufficient reliance on the arrangements/ controls in place. Substantial control weaknesses exist.

At the end of the financial year we will be able to give an assurance level score for the Council as a whole, based on the individual scores for each audit.

## **Distribution of Audit Reports**

Following completion of the audit fieldwork, the auditor will issue to the auditee and the appropriate Service Manager a draft audit report setting out the audit findings, conclusions and recommendations. The recipients are invited to comment on the factual accuracy of the report and to discuss any aspect before responding formally.

The final audit report will normally be issued to the auditee, Service Manager and the relevant Director.

## **Audit Follow Up of Agreed Actions**

An action plan for the implementation of agreed actions arising from an audit review forms part of the Final Audit Report document.

Recommendations with a high priority will be followed up and re-tested within 3 months and within 6 months for medium priority recommendations. Low priority recommendations will be reviewed the next time that particular audit is undertaken. Any recommendations not implemented by the due date will be reported to the relevant manager AND Director. If after this process the recommendation is still not implemented, it will be reported to Accounts and Audit Committee.

For the above purposes, Internal Audit will maintain a register of recommendations from all audit sources including those completed by the Audit Commission.

## 6.4.11 Standard 11 – Performance and Effectiveness

### Quality Management

All internal audit work is performed in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. Individual members of staff also comply with the relevant standards and guidelines issued by their professional body – Association of Accounting Technicians and Chartered Institute of Public Finance and Accountancy.

### Quality Assurance

The Principal Auditor ensures that the standards and processes contained within this manual are reviewed and updated annually to ensure that they remain modern and relevant to the needs of the Council.

The Audit Commission undertakes independent reviews to measure and evaluate the effectiveness of the internal audit function and reports the results to Accounts and Audit Committee.

In order for Internal Audit to monitor, and, where necessary, to improve its performance where appropriate, a satisfaction survey form is sent to the client at the conclusion of each appropriate individual planned/ unplanned audit.

## **7. INTERNAL AUDIT RESOURCES**

Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the Standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

The Principal Auditor is responsible for appointing the staff of the Internal Audit Section and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Principal Auditor is responsible for ensuring that the resources of the Internal Audit Section are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby he concluded that resources were insufficient, he must formally report this to the Section 151 Officer.

## 8. FRAUD AND CORRUPTION

Managing the risk of fraud and corruption is the responsibility of Directors and Managers. Audit procedures alone, even when performed with professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Internal Auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Internal Audit may be requested by management to assist with fraud related work.

The Principal Auditor should make arrangements to be informed of all suspected or detected fraud, corruption or improprieties so that he can consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for the opinion of the internal control environment (see 'Anti Fraud and Corruption' and 'Whistleblowing' policies).

## 9. POLICY MAINTENANCE & ADVICE

Internal Audit is responsible for the maintenance of the following policies:

- Fraud and Corruption
- Prosecution

## **10. OTHER ACTIVITIES**

### **10.1 Routine activities**

**10.1.1** Internal Audit undertakes some routine tasks which will not follow the usual Internal Audit procedures, namely:

- Insurance claims administration and processing.
- The audit of Sydney Whiteside charity accounts.
- The audit of performance indicators.
- Maintenance of the Council's risk register.

### **10.2 List of Delegated Signatories**

**10.2.1** Internal Audit is responsible for the maintenance and upkeep of the Approved List of Signatories and keeps copies of all current authorisations.

## 11. PERFORMANCE INDICATORS

11.1 The following indicators are used to measure the audit function's progress towards the achievement of key objectives:

<b>Activity</b>	<b>Target Standard 2009/ 2010</b>	<b>Monitoring</b>	<b>Reporting</b>
Delivery of Audit Plan	95% of annual plan completed	Quarterly monitoring	Quarterly to Overview & Scrutiny Committee
% of Draft Reports issued within 10 days of completion of audit testing	100%	Quarterly monitoring	Quarterly to Overview & Scrutiny Committee
% of Final Reports issued within 25 days of completion of audit testing	100%	Quarterly monitoring	Quarterly to Overview & Scrutiny Committee
% of High priority recommendations implemented	100%	Quarterly monitoring	Quarterly to Overview & Scrutiny Committee
% of Medium priority recommendations implemented	100%	Quarterly monitoring	Quarterly to Overview & Scrutiny Committee
% of Low priority recommendations implemented	100%	Quarterly monitoring	Quarterly to Overview & Scrutiny Committee