

AUDIT COMMITTEE
18 March 2014 at 7.00 pm

Further to the despatch of agenda and papers for the above meeting, please find the following background document(s):

5. **Internal Annual Audit Plan 2014/15**

(Pages 1 - 76)

Bami Cole

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Internal Audit Annual Report

2012/13



**SEVENOAKS DISTRICT COUNCIL
ANNUAL INTERNAL AUDIT REPORT 2012/13**

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Background

1. This report deals with the outcome of the work undertaken by the Audit and Risk and Anti-Fraud Team for the period 2012/13. The report also contains the overall Assurance Opinion of the Internal Audit Manager regarding the effectiveness of the systems of internal controls within the Council for the period 2012/13; and a summary of the reviews carried out, including outturn performance indicators for the period.

Members may note that this is the third annual report following the shared services agreement with Dartford Borough Council.

2. The Accounts and Audit Regulations 2011, require local Councils to comply with proper practices regarding their arrangements for internal audit and internal control. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) details guidance regarding proper practice in relation to internal audit. This report is therefore prepared in compliance with the CIPFA Code of Practice (CoP).

Introduction

- 3 This report sets out the following details relating to the team's service plan objectives for 2012/13:
 - Provides an overall assurance opinion on the adequacy and effectiveness of the organisations control environment for 2012/13
 - Summarises the outcome of the team's work during 2012/13 with respect to:
 - The Annual Internal Audit Plan for 2012/13
 - Risk Management
 - Annual Governance Statement
 - Assesses Internal Audit performance against a range of performance measures
 - Summarises the result of 2012/13 audit reviews. (Annex 1)
 - Summaries of outcome of the findings and recommendations of reports issued since the last meeting of the committee are attached in Annex 2

4. Basis of the opinion on the Council's Internal Control Environment

The Internal Audit Manager's opinion on the Council's system of internal control environment is based on the work of the Audit, Risk and Anti-Fraud team during 2012/13, details of which can be found in Annex 1 of this report.

4.1. Overall Assurance Opinion

Based on the audit work undertaken throughout the year, responses to our recommendations and our fraud or irregularity investigations; and giving regard to other sources of assurance; in my opinion as Internal Audit Manager, Sevenoaks District Council's system of internal control contributes effectively

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to the proper, economic, efficient and effective use of resources in achieving the Council's objectives. This opinion is based on the work of the Internal Audit Service during 2012-13 and giving regard to the work of the External Auditors.

Whilst it was identified that management had, in the main, established effective internal controls within the areas reviewed by internal audit during 2012-13, there were areas which presented opportunities for further improvement in internal control, or where compliance with existing controls could be enhanced, to reduce the financial or reputational risk to the Council. Where such findings were identified, recommendations were agreed with management to further strengthen the controls within the systems/processes they affect.

The system of internal control is designed to manage risks to a reasonable level rather than to eliminate all risks of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Activities During The Year - Internal Audit

5. The key responsibility of the team is to provide an in-house internal audit service on behalf of the Council.
6. Internal Audit is defined by the CIPFA CoP as; "an assurance function that provides an independent and objective opinion to the organisation on the control environment (risk management, internal control and governance) by evaluating its effectiveness in achieving the organisation'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".
7. The audit plan for 2012/13 contained 25 reviews for 2012/13. During the year the plan was revised to reflect available resources and to take account of risk and materiality in delivering the assurance requirements for 2012/13. Two reviews were deferred; one of which has been included in the annual audit plan for 2013/14. The other was no longer considered necessary for assurance purposes. The remaining reviews (except one which is still in progress) have all been completed at least to draft report stage. A summary of the results is attached as Annex 1 to this report.
8. The key aspects of our internal control responsibilities are aimed at achieving the following:
 - to ensure adherence to Council policies and directives in order to achieve the organisation's objectives
 - to safeguard assets
 - to secure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records and

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- to ensure compliance with statutory requirements.
9. An additional responsibility is that the Council's external auditors place reliance on our audit reviews in order to minimise the work they undertake regarding systems testing. This reduces the Council's total audit costs and keeps duplication between external and internal audit work to a minimum. In order to meet relevant assurance requirements, we aim to test the key controls operating in all major financial system each year
 10. Annex 1 shows a summary of the findings and opinions on individual reviews conducted during the year. Given that some of the audit work was carried out over a year ago, where appropriate, an updated opinion is given to reflect changes over the period and the position as at 28 May 2013.
 11. There were no significant issues arising from the work done with regard to the audit plan. We received a good response to our recommendations to improve control across the organisation. To date departments have implemented 16 (35%) (25, 51% in 2011/12) of our recommendations immediately following the audit, with action in progress, or planned to implement the remainder within a reasonable timescale.

Prepare the Internal Audit Plan for 2013/14

12. The audit plan for 2013/14 was completed in March 2013 and agreed by Performance & Governance Committee on 17 April 2013. The plan is risk based, and reflects the Council's risk profile. At the time of audit planning risk registers were being prepared for operational risks and the strategic risk framework was under review. Thus the plan would be revised as necessary to reflect changes in the risk profiles of the Council. Any revisions will be taken to the next meeting of the Audit Committee for approval.

Risk Management

13. The risk management framework of the Council has been under review during 2012/13 and has been implemented for operational risks, incorporating the service plans for 2013/14. The process is still on-going for strategic risk. A separate report on risk management is included with the papers for the June Audit Board.

Annual Governance Statement (AGS)

14. Regulation 4 of the Accounts and Audit Regulations 2011 requires the Council to carry out an annual review of its system of internal control; risk management processes and governance arrangements. The outcome of these reviews should be included in an Annual Governance Statement (AGS). The team co-ordinated the information gathering process which fed into the production of the AGS and offered advice and information to Management in order to facilitate the effective completion of the process. A report on the Annual Governance Statement is being prepared and will accompany the Accounts to the September meeting of the Audit Committee.

Other Activities

15. A summary of the non-core activities undertaken by the team is as follows:
- Liaise with the Council's new External Auditors and agree a communications protocol to enhance closer co-operation and minimise duplication in delivering the assurance requirements for the Council
 - Carried out investigations and ad hoc projects as required by management in delivering the Council's objectives
 - Participated in other Council initiatives, for example, supporting the 2012 Olympics as stewards, taking part in the customer services NVQ initiative by the Council, supporting the Council's successful application for the IIP Gold Award etc.
 - The Audit Manager also attended regular finance managers' meetings and quarterly Corporate Resources Senior Managers Group meetings

Audit Approach

16. The following set out our approach in carrying out our audit responsibilities during 2012/13:

Risk Based System Reviews

17. When carrying out an audit review, we identify the financial and operational controls in place within the system to manage potential risks, and then evaluate and test the controls to ensure that they are operating as planned. This allows us to test only a sample of transactions and still draw conclusions about how well procedures are working in the Council. Examples of the types of controls we expect to see in place are as follows:
- up-to-date procedure notes, so that staff are aware of the procedures they should be following
 - separation of duties and third party checks, so that staff act as checks on each other's actions
 - effective supervision, so that quality is maintained and that any problems are promptly identified and addressed
 - reconciliations between financial records and other records held, to confirm the accuracy of the financial records
 - access to records is limited to those who are authorised to use it for pursuance of Council business
 - effective review of exception reports and other management information

Contract Audit

18. As well as reviewing the Council's Contracts Register, we advise on tendering procedures and compliance with legislation and regulations. We also follow

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the progress of the contract throughout its life where appropriate and confirm the final accounts have been checked to ensure these are in accordance with the contract and any variation orders. In accordance with guidance from CIPFA, we do not audit final accounts, as we place reliance on the technical staff responsible for managing and monitoring the contracts in compliance with Council procedures..

Fraud and Corruption

19. When a loss or potential fraud is brought to our attention or discovered during an audit, we undertake an investigation in order to determine whether the loss was as a result of an error or deliberate action. Where appropriate, we make recommendations to improve controls within the system affected by the loss or allegation. During the year 2012/13 there was no reported cases of irregularity.
20. We work closely with the Audit Commission's National Fraud Initiative (NFI) who provides us with 'fraud warnings' and relevant fraud data throughout the year. Where appropriate, we investigate to ensure that fraud found at other organisations is not taking place at Sevenoaks District Council, as part of the fraud risk management process. During the year we carried out investigations into data matches passed to us by the NFI. There were no significant findings from the matches investigated.

Following up Previous Year's Audits

21. Follow-up on previous audit recommendations and agreed actions is necessary to enable internal audit to assess the effectiveness of the audit recommendations implemented by management to address identified weaknesses in internal controls. When we carry out an audit, we follow up on any previous audit recommendations as part of our review. Where areas are reviewed annually this means that recommendations are usually followed up the year after they are made. However, where the audit opinion is unsatisfactory, follow-up would be carried out within 3 to 6 months of the review or sooner, where appropriate.

Internal Audit Section Performance

22. Internal Audit's performance over the past year is analysed over a number of factors in order to facilitate continuous monitoring of inputs, outputs and quality, and to maintain high standards. Outturn data for performance measures are highlighted below (see pages 7 to 11 below).

Quality Measures

23. *External Audit assessment* – Grant Thornton became the new external auditors in 2012/13. During the year we worked closely with the District Auditor and his staff to meet the assurance requirements.

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24. The reliance placed on our work by the external auditors reduces both the duplication of audit effort and the total cost to the Council of work done by the external auditors. We will continue to work in co-operation with the external auditors in 2013 to ensure an integrated audit approach.
25. The team is ISO9001 accredited and had a successful review following the last assessment by BSI in July 2012.
26. *Audit satisfaction questionnaires* – As part of our overall approach to quality, we send a customer questionnaire to all recipients of our reports, who are asked to comment on their satisfaction with the audit process. The survey results received so far are summarised in the table below:

Responses to Questionnaires: –

	Question	Yes	%	No	%
1	I was given adequate notification and opportunity to contribute and comment prior to the Audit Brief being issued	12	100%		
2	Appropriate staff were interviewed	12	100%		
3	Audit objectives covered all the relevant issues	12	100%		
4	I am confident with the accuracy of the audit findings	12	100%		
5a	I was given adequate opportunity to discuss audit findings and recommendations during the feedback	12	100%		
5b	and my views were adequately reflected in the final report	12	100%		
6a	The final audit report was timely	12	100%		
6b	and clear and understandable	12	100%		
7a	The audit recommendations in the final report were relevant,	10*	100%		
7b	practical,	10*	100%		
7c	realistic	10*	100%		

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8	This audit has added value and/or assurance of adequacy (or not) of internal controls	12	100%		
9	Did this audit identify any unknown issues	1	8%	11	92%

*Questions 7a, 7b & 7c didn't apply to 2 questionnaires as there were no recommendations made in the audits

Implementation of Recommendations

27. Following our audit all report recipients are asked to complete a monitoring sheet showing whether they agree with the recommendations made and how they plan to implement them. The results are summarised as follows:

Analysis of progress sheets

Recommendations	2012/13		2011/12	
	number	%	number	%
accepted	46	100	51	100
Rejected	0	0	0	0
recommendation implemented	16	35	25	51
implementation in progress				
implementation planned	30	65	26	39
no action recorded				

28. In total, we have agreed 46 recommendations to date in 2012/13. Some reports did not receive a recommendation, where the controls were found to be sufficiently strong and where it was felt that additional strengthening may not be cost effective (see Appendix A - Annex 1)
29. The above shows that departments are taking action on 100% of our recommendations.

Input Resources

30. **Staffing** – The team has the full complement of staff agreed in the shared services agreement between Sevenoaks and Dartford Councils.
31. **Sickness levels** – Total sick days for the year for the team was 38 days in 2012/13, averaging approximately 12.6 days (8 days in 2011/12). During the year there was one long term sickness, which affected the figures. Excluding the long term sickness, the average would have been 4.2 days.
32. **Training** – Training is an important part of staff development and is required to ensure continuing professional development (CPD) to equip staff with the skills they need to provide quality and an effective services and to keep

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abreast of regulatory and technical developments. Over the past year, team members participated in training covering the following areas:

- IT security
- Agresso, Cedar Simon & TASK systems training
- Ivy soft (In-house on-line training on a range of subjects, including Health and Safety)
- Professional briefings and workshops run by the Institute of Internal Auditors
- Data Protection, Freedom of Information and Environmental Information Regulations
- Benefit fraud hotline
- IIA Heads of Internal Audit Workshops
- Procurement contracts requirements
- Kent Audit Group conference
- IRM Conference
- Future of Local Government Audit conference
- National Anti-Fraud Network Conference.

33. The section also participated in the following County Wide group meetings where best practice is discussed and disseminated:

- Kent Audit Group meetings – Heads of Audit

Output Measures

Completion of the audit programme:

34. Twenty two reviews out of twenty three within the revised internal audit plan for 2012/13 have been completed to at least to draft stage The original plan consisted of 25 reviews. However, for operational reasons the plan was revised in January 2012. Two reviews were deferred and approved by the Performance and Governance Committee.

Performance measures

35. In 2012/13, the team was measured against the following PIs for Internal Audit based on the CIPFA guidance. The following shows actual performance against targets for 2011/12.

	Measure	Target	Actual 2012/13	Actual 2011/12
1	<i>Percentage of internal audit time spent on direct activity</i>	<i>80% of available time.</i>	82.59%	79.18%

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2	<i>Efficiency of the audit service</i>	<i>95% of draft reports issued within 15 working days of completion of the audit fieldwork.</i>	95 %	65%
3	<i>Efficiency of the audit service</i>	<i>95% of audits achieved in allocated days (+10%)</i>	90%	100%
4	<i>Client satisfaction with audits carried out</i>	<i>92% client satisfaction as indicated by the responses to the post audit questionnaires.</i>	100%	99%

36. The team meet or exceeded its four performance indicators. Demonstrating an effective delivery of the assurance requirements.

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Appendix A - Annex 1

Audit title	Opinion
Main Accounting System	Good/Good
Budgetary Control	Good/Good
Cash & Bank Reconciliations	Good/Good
Treasury Management	Good/Good
Payroll	Good
Purchasing & Creditors	Good/Satisfactory
Council Tax & Housing Benefits	Good
Car Parking Income	Satisfactory
Contract Management Arrangements	Satisfactory
Environmental Health	Good/Good
Savings Forecast	Good
Paralympics	Good
Impact of Budget Constraints on Services	Satisfactory
Data Quality/Accuracy	Satisfactory/Good
Information Management	Adequate
Sundry Debtors	Good/Good
Council Tax/NNDR	Good/Good
Dunbrik	Satisfactory/Satisfactory
Project Delivery Arrangements	TBC
IT Implementation	Satisfactory/Unsatisfactory
Procurement	Adequate
Risk Management	Not Applicable
Annual Government Statement	Not Applicable
Overall Opinion	See opinion on Para 4.1

Note: during January to date, the team piloted a new opinion framework, incorporating Frameworks and Implementation. See annex 4 below for definitions of the new opinions.

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INTERNAL AUDIT REPORT 2012/13****Appendix A – Annex 2****Review of Budgetary Control****Issued: 17 April 2013**

Opinion: Control Framework – Good
Compliance with Framework - Good

The purpose of this review was to provide assurance on the effectiveness of the budget preparation and control processes. This was a reduced scope audit which focused on areas not previously covered in the most recent review, or areas which were of some concerns at the last review. This included profiling and monitoring arrangements, including action to identify and prevent significant variances.

To this effect, the following key risks and controls were examined;

- 1) The Council may not comply with relevant legislation, policies or good practice.
- 2) The budget setting and profiling process may not be effective or timely.
- 3) There may be ineffective arrangements for monitoring and reporting budgetary activity.
- 4) Corrective and timely action to identify and manage variances may not be taken
- 5) Risk that fraud and corruption may be undetected.
- 6) Risk that opportunities to demonstrate efficiency or value for money may not be realised.
- 7) Risk that risk assessments are not adequately undertaken and risks not adequately managed.

Audit testing results indicated that controls were fully met in all aspects examined. Therefore no recommendations were made.

The audit opinion was 'good'. This meant that controls are in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks. Compliance with the risk management process is considered to be good and no significant or material errors or omissions were found.

Review of SDC Cash and Bank Reconciliations Issued: 4th March 2013

Opinion: Control Framework – Good
Compliance with Framework – Good

The purpose of this review was to provide assurance on the effectiveness of the reconciliation process, which ensures the accuracy of the Council's accounting records as required by statute. This included timeliness and the promptness of

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actions taken to address unexplained variances, as these are key elements of the effectiveness of a reconciliation control.

To this effect, the following key risks and controls were examined;

- 1) Risk that the Council may not comply with relevant legislation, organisational policy (for example the Treasury Management Policy) and good practice
- 2) Risk that appropriate records are not kept to support the reconciliation process
- 3) Risk that reconciliations between the Council's bank statement and financial systems may not be accurate, independent, upto-date or reviewed by a senior officer
- 4) Risk that reconciliations may not be completed on a timely basis
- 5) Risk that the Council may not have an accurate view of its cash flow or financial position
- 6) Risk that fraud and corruption may be undetected
- 7) Risk that opportunities to demonstrate efficiency or value for money may not be realised
- 8) Risk that risk assessments are not adequately undertaken and risks not adequately managed

Audit testing results indicated that controls were fully met in all eight of the aspects examined. The audit opinion for both the control framework and compliance was 'good'. This meant that controls are in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks. Compliance with the risk management process is considered to be good and no significant or material errors or omissions were found.

It was identified that further controls would be uneconomic to implement. Therefore no recommendations were made.

Review of SDC Treasury Management

Issued: 17 April 2013

Opinion: Control Framework – Good
Compliance with Framework – Good

The purpose of the review was to provide assurance to Management regarding the effectiveness of the Council's treasury management system in meetings its service objectives. The Treasury Management system is a key financial system, and therefore it is reviewed annually.

To this effect, the following key risks and controls were examined;

- 1) Risk that the Council may not comply with relevant legislation, organisational policy and good practice.
- 2) There may be insufficient documentary evidence to support transactions

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- 3) The organisation's financial and cash flow position may not be regularly assessed or monitored
 - 4) The Council may make investments above its risk appetite or with unapproved investment instruments
 - 5) Surplus funds may not be invested promptly
 - 6) Investment transactions may not be appropriate, legitimate, or correctly authorised
 - 7) Fraud and/or corruption may be undetected
 - 8) Opportunities to achieve or demonstrate efficiency or value for money may not be maximised.
 - 9) Risk assessments may not be adequately undertaken and risks not adequately managed

Audit testing results indicated that controls were fully met in eight of the aspects examined, whilst one was partially met (Risk 9). The audit opinion was 'good'. This meant that controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified and opportunities still exist to mitigate further against potential risks. One recommendation was agreed with Management to address the area where controls were partially met. This relates to risk 9.

- The next risk register should ensure that all Treasury controls relating to staff absence are fully documented.

Members will be advised of the progress in implementing this recommendation in

Review of SDC Purchasing & Creditors**Issued: 14 May 2013****Purchasing Opinion:** Control Framework – Good

Compliance with Framework – Good

Creditors Opinion: Control Framework – Good

Compliance with Framework – Satisfactory

The purpose of this review was to provide assurance regarding the effectiveness of the controls established over the purchasing and creditors systems. This included the process for the purchasing and receipt of goods and services and determining whether the system is operating in accordance with financial regulations and relevant Councils policies and procedures.

To this effect, the following key risks and controls were examined;

1. Risk that the Council's financial regulations, policies and procedures are not being followed
2. Payments may be made for goods/services either not received; or not of the required quality, or for the benefit of the Council

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3. There may not be sufficient documentation to support the purchasing of goods and services and for the receipting of goods and services.
 4. Invoices may not be processed and paid in accordance with payment terms
 5. Fraud and/or corruption may occur if purchases and payments are not transparent
 6. Purchases and payments may be made that do not provide value for money to the Council.
 7. Risk of failure to complete an appropriate annual risk assessment for the service area

Audit testing results indicated that controls were fully met in five of the aspects examined, whilst two were partially met (Risks 1&7).

As two separate systems made up this review, this year there is an opinion for purchasing and another for creditors (payments)

The opinion of the auditor was that Purchasing framework of controls in place to ensure achievement of service objectives was **good**. Additionally, the implementation of the current purchasing framework was **satisfactory**. With regards to creditors (payments system) the opinion of the auditor is that framework of controls in place to ensure achievement of service objectives was **good**. Additionally, the implementation of the current framework was **good** (see annex 4 for opinion descriptions)

Three recommendations were agreed with Management to address the area where controls were partially met. These relate to risks 1&7.

- The Finance Manager needs to ensure that all officers responsible for processing invoices are aware of the new directive. This should be done by
 - Sending an email to all staff to raise awareness
 - Information to be available on the intranet (Simon) which should answer all queries
- Officer awareness needs to be raised regarding the advantages of raising purchase orders. These include improved expenditure monitoring and efficient payment authorisation which will assist with compliance with the new Late Payments Directive and Council Regulations.
- The 2013 operational risk register must be updated to include new risks in relation to the new late payments legislation. These risks could be:-
 - Possible fines due to late payment of invoices
 - Insufficient process to evidence receipt of an invoice

Members will be advised of the progress in implementing these recommendations in due course.

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INTERNAL AUDIT REPORT 2012/13****Review of SDC Procurement****Issued: 22 May 2013****Opinion: Adequate**

The purpose of the review was to provide assurance to Management regarding the fitness for purpose and effectiveness of the Council's procurement policies and procedures, including their compliance with EU and UK regulation.

To this effect, the following key risks and controls were examined;

- 1) Risk that the Council may not comply with relevant legislation, organisational policy and good practice.
- 2) The Council may not be aware of, or comply with, all EU requirements
- 3) Policies may not be current, appropriate, or include the relevant provisions
- 4) Policies and procedures may not be available to, or understood by, all officers
- 5) Officers may not implement full compliance with the Council's policy
- 6) Fraud and/or corruption may be undetected
- 7) Opportunities to achieve or demonstrate efficiency or value for money may not be maximised
- 8) Risk assessments may not be adequately undertaken and risks not adequately managed

Audit testing results indicated that controls were fully met in three of the aspects examined, whilst five were partially met (Risks 3, 4, 5, 7 and 8).

The audit opinion was 'adequate'. This meant that controls are in place and to varying degrees are complied with but there are gaps in the process, which leave the service exposed to risks. There is, therefore, a need to introduce additional controls and improve compliance with existing controls, to reduce the risk exposure for the Council.

Nine recommendations were agreed with Management to address the area where controls were partially met. These relate to risks 3, 4, 5, 7 and 8.

- The Sustainable Procurement Strategy and Contracts Procedure Rules should be updated to include the strategic role of the Council's Procurement Group, and the current procurement governance structure.
- The Procurement Strategy should be reviewed annually and responsibility should be allocated to either a named accountable officer or to the Procurement Group.
- Training sessions or refreshers, covering full procurement procedures, should be run for appropriate officers, to address existing procurement knowledge gaps.
- Management should review the expenditure for agency and temporary staff and consider adopting the framework agreement, already in place across the Council for general, non-specialised staff.

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- Departments with specialist agency needs should tender for a call off contract for the supply of their agency staff. The tender should be designed to consider not only the best price but also the quality of service and minimum knowledge requirements for their field of expertise.
- The Councils Purchasing Guide should either be made available to staff through the Procurement pages on Simon, or references to it should be removed from the Contracts Procedure rules and the waiver circumstances made available separately on the Procurement web page.
- Waiver forms should be made available to staff via the procurement page on SiMON. Organised training should cover the proper application of waivers.
- A waiver of the Contract Procedure Rules should be requested by the Benefits Manager to the Director of Corporate Resources. The application should be completed in the correct format and the special circumstances documented.
- The next review of the Strategic Risk Register should consider the risks relating to the Council's corporate procurement processes.

Members will be advised of the progress in implementing these recommendations in due course.

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Appendix A - Annex 3

AUDIT OPINIONS - Definitions

- Good** *Controls are in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against significant foreseeable risks. Compliance with the risk management process is considered to be good and no significant or material errors or omissions were found.*
- Satisfactory** *Controls exist to enable the achievement of service objectives, obtain good corporate governance, and protect against significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified and opportunities still exist to mitigate further against potential risks.*
- Adequate** *Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system and leave the Council exposed to some minor risks. There is therefore, a need to introduce some additional controls and improve compliance with existing controls to reduce the risk to the Council.*
- Unsatisfactory** *Controls are considered insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls, and errors and omissions have been detected. Failure to improve controls leaves the Council exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.*
- Unacceptable** *Controls are generally weak or non-existent, leaving the system open to abuse or error. A high number of key risks remain unidentified and therefore, unmanaged.*

Audit Opinions

Since January 2013 a total of two audit opinions have been given for each audit review.

Framework. – the systems in place and controls within it.

The first opinion refers to the framework of controls in place to manage the risks. An audit will examine all the controls in place to manage the risks which could prevent the achievement of service objectives. It will identify areas where there are control gaps or a need to enhance existing controls. It will then make recommendations for additional or improved controls.

Effectiveness – the effectiveness of the controls in place.

This opinion refers to the effectiveness of existing controls. An audit will test the controls in place to ensure that they are effectively implemented and are complied with. Testing will identify where controls are not achieving the required outcomes or where they are not being followed. Recommendations will then be made to either strengthen or enforce compliance with existing controls.

No compliance testing will be undertaken where no framework exists. However, weakness or threat testing may be undertaken in order to establish the extent of the risk or the potential loss to the Council.

Additionally, to support this new approach, the opinions have been redefined and the revised definitions are below.

Opinion	Framework	Effectiveness(Implementation)
Excellent	... innovative controls are in place, which demonstrate efficiencies and excellent value for money, whilst ensuring the achievement of service objectives, good corporate governance and high level of protection for the council against foreseeable risks.	... there is full compliance with the framework of controls and the risk management process is considered to be fully effective. There is evidence of notable practice and no areas of concern were identified.
Minimum requirement	All controls are in place	All controls are fully implemented
Good	... a high level of control framework is in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against foreseeable risks.	... the framework of controls is substantially being complied with and risk management process is considered to be good. Only minor errors or omissions identified

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Minimum requirement	All controls are in place	51% or above of testing results are low and the remainder are medium. Limited room for further development
Satisfactory	... controls exist to enable the achievement of service objectives, obtain good corporate governance and mitigate against significant foreseeable risks.	... occasional instances of failure to comply with the control process were identified and opportunities still exist to mitigate further against potential risks.
Minimum requirement	Control requirements are substantially met	Up to 50% of testing results are medium or low. Opportunities for further developments exists requiring constructive proposals for management consideration
Unsatisfactory	... limited controls are in place but there are gaps in the process, which leave the service exposed to foreseeable risks. Hence further development in framework is needed to make the system effective.	... there is an urgent need to introduce additional controls and improve compliance with existing controls, to reduce the risk exposure to the Council.
Minimum requirement	Control requirements are patchy and unreliable	Testing results identified one or more high risk
Unacceptable	... controls are considered to be inadequate or non-existent with the absence of at least one critical control mechanism. An urgent need exists to introduce appropriate level of controls without delay.	... failure to urgently improve controls leaves the Council exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.
		Note: compliance testing in this circumstance may not add value. However, there would be some value in conducting weakness testing in some circumstances to determine the level of "threat" or "loss" to the Council. Hence an opinion for compliance may not be given where the framework is "unacceptable"
Minimum requirement	No evidence of control exists	Testing results identified one or more very high risk

Internal Audit Plan

2013/14

D R A F T



Background

1. The Accounts and Audit Regulations 2011 requires the Council to have an effective internal audit which would provide an opinion on the adequacy and effectiveness of financial control, as well as to provide reasonable assurance on the Council's overall governance and internal control processes. This includes the arrangements for the Annual Governance Statement, the review of the effectiveness of internal audit and the management of business risks.
2. This requires an annual internal audit plan which:
 - Draws on effective co-operation with External Auditors and other external review agencies, from which the public may gain assurance regarding the effectiveness of the Council's system of internal control.
 - Provides Councillors, the Chief Executive, the Chief Executive Designate, and other senior managers with an overall opinion on the status of the Council's governance arrangements, including internal control and risk management.
 - Supports the Chief Executive Designate in fulfilling his obligations under Section 151 of the 1972 Local Government Act and the Accounts and Audit Regulations 2011, to ensure the Council operates safe and efficient financial and management information systems.
 - Enables the Council to place assurance on the work of Internal Audit in fulfilling its obligations under the Accounts and Audit Regulations 2011, Regulation 4, to establish proper practices for the publication of an Annual Governance Statement; and Regulation 6 to review the effectiveness of the internal audit function.
 - Conducts audit reviews of the Council's risk management, internal control, and governance arrangements in a way that takes full account of the Council's objectives and risks.
 - Aims to improve the Council's risk management, internal control, and governance arrangements by providing line management with practical recommendations arising from audit work; including consultancy and advice and information as necessary or on request.
 - Delivers an audit service that meets standards of performance and quality as laid down in the CIPFA Code of Practice for Internal Audit in Local Government.

Internal Audit's objectives

3. The internal audit function is provided through a shared services arrangement with Dartford Council which came into force in April 2011. Consequently the objective of the team is to provide relevant services for both Councils. However, this plan deals with the teams work for Sevenoaks District Council only, regarding the provision of Internal Audit Services, in fulfilment of the Council's section 151 responsibilities and its obligations under the Accounts and Audit Regulations 2011. To this effect, the objective of the team's work in this area is

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to give an assurance to the Council on the effectiveness of the overall governance, risk management and internal control processes of the Council.

4. In recognition of the statutory requirement, it is the responsibility of Internal Audit to review, appraise and report upon:
- The soundness, adequacy, and application of financial and other management controls.
 - The extent of compliance with, and the relevant and financial effect on established policies, plans and procedures.
 - The extent to which the organisation's assets and interests are accounted for and safeguarded from losses of all kinds arising from:
 - Fraud, bribery, corruption and other offences
 - waste, extravagance, and inefficient administration, poor value for money and other causes.
 - The suitability and reliability of financial and other management data developed within the organisation.
 - The effectiveness of the Council's risk management framework

Proposed Audit Techniques

5. To fulfil our responsibility we propose to adopt the following techniques, the relevant technique adopted will depend on the nature and scope of each audit review:

Risk-based audit

Risk-based auditing takes account of the Council's strategic and operational objectives, and evaluates through audit testing, the management of risks to achieving these objectives, thereby providing an opinion on the quality of internal control within a system. Recommendations for improvements in control are made proportional to the impact and likelihood of existing risks.

Systems-based audit

Where appropriate, Audit may undertake wider documentation, evaluation and testing of financial, operational and management information systems providing an opinion as to the adequacy of control and offering suggestions and advice to enable strengthening of system weaknesses and to assist in the improving the effectiveness of controls.

Systems based auditing provides high quality assurance on management controls for those systems evaluated externally.

Our systems-based audit work is based on the CIPFA System Control Matrices. The matrices draw on the approach, standards, and guidance of a variety of audit and regulatory bodies, including the Audit Commission.

Financial/Probity Reviews

Examination of financial records for compliance with agreed policy, regulations, and procedures.

Investigation of Irregularities

We will undertake enquiries into cases of discovered or reported irregularity including, where required, liaison with other investigatory bodies, such as the National Fraud Initiative (NFI). These usually lead to the enhancement of risk management activities within the Council, and to the strengthening of internal controls.

Advice and Information

We offer advice, information and assistance to all levels of management on internal control, governance and risk management.

IT audit

IT audit is a specialist area and in previous years the work has been undertaken by external consultants working under local management. In 2012/13 we carried out work in this area using internal resources. We hope to continue to do so in 2013/14.

VFM audit

Value for money considerations will be factored into our approach where relevant and appropriate. This would enable us to determine whether managers are making use of the opportunities and resources available to them for obtaining good value for money.

Audit Approach

6. In order to make best use of staff resources and to maximise the team's effectiveness, the need for audit reviews in individual areas is considered based on a risk assessment, which evaluates:
 - materiality
 - the inherent risk associated with the activity (high risk activities are those which involve access to cash or complex activities where errors, loss or fraud could arise)
 - the controls in place to prevent and detect losses and errors
 - knowledge from previous audit reviews
 - Legal or regulatory compliance
7. This risk assessment is then translated into an annual operational plan, which sets out the areas to be covered in the current year, taking into account resource constraints.
8. In compiling the Plan for 2013/14 we have taken into account:
 - The internal audit strategy
 - the financial risk assessment of the Council's activities
 - strategic and operational risks assessments
 - shared services and partnership arrangements
 - discussions with senior officers
 - brought forward work from 2012/13

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- the incidence of irregularities over the past year
- resources available
- significant changes arising from external and internal pressures
- organisational changes within the last 12 months
- the results of external audit work, or external regulatory assessments from other review agencies
- professional guidance were applicable

9. The Plan for 2013/14

The table below lists the audits we would undertake during 2013/14 and a summary of the scope of each review. As part of the process we carry out an annual review of key financial systems. These are usually systems with high inherent risks, usually areas of major income and expenditure where a failure to manage risks effectively might result in material financial loss, or significant damage to the Council's reputation. The reviews are intended to ascertain the arrangements management have in place to manage operational or business risks and to give an assurance regarding their effectiveness. Where the audit opinion has remained "Good" over the last two years, it is proposed to carry out a scaled down review, which would incorporate only key controls; aspects not covered in previous reviews, or areas which may have given rise to concerns since the previous audit review. This approach is consistent with the risk based audit approach inherent in the Council's internal audit strategy.

Key Financial Systems and other Financial Systems

<i>Audit area</i>	<i>Review objectives</i>
1. Main accounting system <ul style="list-style-type: none"> • Agresso based system • TASK based system 	To give assurance on: <ul style="list-style-type: none"> • the controls over entries to the main accounting system; and that data is processed completely; accurately and authenticated.
2. Budget Preparation & Control	To give assurance on: <ul style="list-style-type: none"> • the robustness of the budget preparation process, including profiles • budgetary control process and monitoring arrangements, including action to identify and prevent significant variances
3. Cash and Bank Reconciliations <ul style="list-style-type: none"> • Main SDC account • Tax and Benefit account 	To give assurance on: <ul style="list-style-type: none"> • the reconciliations process, including timelines and the promptness of action taken to address unexplained variances,
4. Treasury Management	To give assurance on:

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	<ul style="list-style-type: none"> the effectiveness of the treasury management system in meeting its service objectives. This would be a light touch review covering areas key controls and compliance arrangements.
5. Payroll	<ul style="list-style-type: none"> to give an assurance regarding the accuracy, completeness and authenticity of payroll transactions, including overtime payments.
6. Creditors <ul style="list-style-type: none"> Agresso and TASK based systems 	<p>To give assurance on:</p> <ul style="list-style-type: none"> the creditors system regarding fitness for purpose and compliance with Council procedures.
7. Debtors <ul style="list-style-type: none"> Agresso based system TASK based system 	<p>To give assurance on:</p> <ul style="list-style-type: none"> the promptness with which debtors accounts are identified and accurately processed for payment, including where appropriate, the taking of recovery action
8. Council Tax /NNDR	<p>To give assurance on:</p> <ul style="list-style-type: none"> the effectiveness of the service in delivering its service objectives and the implementation of shared services arrangements. Key areas to be examined would include any areas of concerns raised in previous internal and external audit reports; in addition to the arrangements for implementing the requirements of new legislation and statutory requirements.
9. Council Tax and Housing Benefits	<p>To give assurance on:</p> <ul style="list-style-type: none"> the effectiveness of the service in delivering service objectives and the shared services arrangements. Including any areas of previous internal or external audit concerns; including the arrangements for implementing the requirements of new legislation and statutory requirements
10. Review of Housing	<ul style="list-style-type: none"> this audit would review the new structure within housing to assess its fitness for purpose in delivering Council policy and statutory requirements. Including an assessment of the HERO Scheme and arrangements to deal with the implications of the single room allowance. In view of the scale of proposed regulatory changes, the precise scope of this review would be discussed and agreed with management prior to commencing the work.
11. Car Parking Income	<p>To give assurance on:</p> <ul style="list-style-type: none"> the effectiveness of the service regarding the security and prompt banking of income collected

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	and the recovery process.
12. Contract Management Arrangements	<p>To give assurance on:</p> <ul style="list-style-type: none"> the review will focus on a selection of contacts entered into over the last 12 to 18 months; as well as proposed, to give an assurance that they complied with Council policies and procedures, including statutory requirements. Also that there are robust arrangements in place to manage performance and delivery.
13. Review of Shared Services Recharges	<p>To give assurance regarding:</p> <ul style="list-style-type: none"> the reliability and accuracy of the processes in place to identify and allocate relevant shared service costs and the allocation of all such costs in accordance with existing agreements.
14. Review of Section 106 Agreements	<p>To give assurance regarding:</p> <ul style="list-style-type: none"> the effectiveness of the arrangements in place for implementation of Section 106 agreements.
15. Annual Governance Statement	<p>To give assurance regarding:</p> <p>The process in place for delivering the Annual Governance Statement and to co-ordinate the production of the statement, ensuring compliance with Statutory requirements and professional guidance.</p>
16. Review of Information Management Council-wide	<p>This review will examine the Council's strategic arrangements for information security and management of information resources including its implications for statutory compliance and regulatory requirements. The audit will also consider retention arrangements and information sharing with internal as well as external partners.</p>
17. Review of IT	<p>This review will examine the arrangements within IT to deliver its service remit, including capacity issues in relation to skills, manpower, hardware, software and other relevant resources required to deliver a quality, reliable and resilient service. In addition, the implementation of recommendations from Penetration Testing Report and other external responses will be examined.</p>
18. Dunbrik Depot	<p>This review will seek to give an assurance regarding the effectiveness of systems within the Dunbrik Depot in meeting relevant service objectives and compliance with Council procedures and policies; including Health and Safety Arrangements. The exact allocation of this time and systems chosen would be informed by the outcome of the updated operational risk registers. However, it is likely that the time would be spent looking at two or three key areas of depot activities which have not been reviewed by</p>

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	internal audit over the last few years
19. Review of Corporate Health and Safety arrangements	This review will examine the Council's arrangements for Health and Safety in order to give an assurance regarding fitness for purpose and compliance with statutory requirements.

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<i>Audit area</i>	<i>Review objectives</i>
20. Review of Safeguarding	This review will examine the Council's arrangements for "safeguarding" in order to give an assurance regarding fitness for purpose and statutory compliance.
21. Review of Planning/Development Control	The review will examine the Council's arrangements for delivering its statutory responsibilities and council policy regarding planning and development control. This will include arrangements for implementing changes in recent statutory requirements. This review will be carried out in the later part of the year, in view of propose organisational changes.
22. Repair and Maintenance Arrangements	This review will examine the Council's arrangements for repairs and the maintenance of Council property and assets, in order to give an assurance regarding fitness for purpose and compliance with Council policy. This area has not be examined by internal audit recently. Thus the scope of the review will include both property and value for money considerations.

Arrangements to prevent fraud and corruption

<i>audit area</i>	<i>review objectives</i>
Contracts	To check that contract payments are only made in accordance with contract terms and when properly authorised.
Cashing up	To check that officers are able to account for all income received by them on the day of the cashing up.
Housing Benefits	To check the robustness of the process to prevent and detect fraud in accordance with National Fraud Initiative requirements.
Special investigations	To carry out investigations into suspected frauds, losses etc in accordance with the Fraud Response Plan.

Follow up of recommendations made in previous audit reports

Audit reports	To follow up recommendations made in previous reports, to confirm that agreed action has been implemented effectively within the agreed time scales.
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10. Audit Programme and Resource Plan for 2013/14

Areas to be audited	Planned days 13/14	Actual days 12/13
1. Main Accounting System	5	10
2. Budgetary Control	5	5
3. Cash and Bank Reconciliations	5	5
4. Treasury Management	5	5
5. Payroll	5	5
6. Creditors	5	10
7. Debtors	5	5
8. Council Tax/NNDR	10	15
9. Council tax Housing Benefits	10	15
10. Review of Housing <i>(B/F from 2012/13)</i>	20	0
11. Car Parking Income	10	10
12. Contract Management Arrangements	10	15
13. Shared Services Recharges	15	0
14. Review of Section 106 Agreements	15	0
15. Annual Governance Statement	10	15
16. Information Management Council-wide	20	10
17. Review of IT	15	15
18. Dunbrik	20	20
19. Review of Corporate H&S Arrangements	20	0
20. Review of Safeguarding Arrangements	10	0
21. Review of Planning/Development Control	20	0
22. Repair and Maintenance Arrangements	15	0
Sub-Total	255	160

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Areas to be audited	Planned days 13/14	Actual days 12/13
Brought forward total	255	180
Arrangements to prevent and detect fraud and corruption	Planned days 13/14	Actual days 12/13
Contracts – payments	10	10
Housing Benefits/ Participation in the National Fraud Initiative (NFI)	10	10
Sub Total	20	20
Other Activities for 2013/14	Planned days 13/14	Actual days 12/13
Follow up of actions agreed in previous reports	20	25
Advice, information and guidance	30	20
Contingencies	35	30
Sub Total	85	75
Total Direct Days	360	255
Audit Planning and Monitoring etc.	20	25
Grand Total resources Required	380	*N/A

***Note:** Seven reviews are planned for 2013/14 which were not carried out in 2012/13. These amounted to a total of **115 days** and are shown as zero, under 2012/13. Hence the total days available for both years are not directly comparable.

Available Resources

- Total staff resources available for direct work is estimated at 415 days, plus 25 days for planning and monitoring. This is equivalent to 50% of total resource available for internal audit within the joint shared services team.

Internal Audit Performance

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12. During 2013/14, the team will continue to work in compliance with the CIPFA Code of Practice for Internal Audit in Local Government, and will measure itself against the performance indicators detailed below. It will also take into consideration of the new Public Sector Internal Audit Standards once they are adopted.
13. The following seven performance indicators relating to the delivery of the audit plan are proposed and are consistent with current professional benchmarks:

	Measure	Target 2013/14
1	<i>Percentage of internal audit time spent on direct activity</i>	<i>80% of available time.</i>
2	<i>Percentage of Final Reports issued within 15 working days of completing field work</i>	<i>95 % following feedback meeting</i>
3	<i>Percentage of audits completed within allocated time.</i>	<i>90% of audits achieved within allocated time.</i>
4	<i>Percentage of audit briefs issued within 10 days of audit start date.</i>	<i>90% of audits</i>
5	<i>Client satisfaction with audits carried out</i>	<i>90% client satisfaction as indicated by the responses to the post audit questionnaires.</i>
6	<i>Value to the Council – Percentage of audit recommendations agreed and implemented by management</i>	<i>95% of audit recommendations accepted and completed within the agreed timescale.</i>
7	<i>Ability to delivery effective assurance</i>	<i>95% of planned work to be completed by 31 March 2012</i>

Reporting Protocol

14. Internal audit work undertaken is reported to clients (service managers, heads of services and directors), the culmination of the year’s work being an annual report to Council Members. Our reports provide an overall audit opinion as to the adequacy of the control environment within the area examined. The annual report will contain an overall opinion on the adequacy of internal control, governance and risk management within the Council.

Audit Opinion

15. The audit opinion is formed following discussions with offices/management, observation of working practices, and the testing of systems. This is to ascertain whether key controls are in place and whether they are being complied with, or whether there are compensating controls, which provide the same level of overall control and protection against identified risks. Definitions of the five levels of opinions, as previously agreed by members are:

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- Good** *Controls are in place to ensure the achievement of service objectives, good corporate governance and to protect the Council against significant foreseeable risks. Compliance with the risk management process is considered to be good and no significant or material errors or omissions were found.*
- Satisfactory** *Controls exist to enable the achievement of service objectives, obtain good corporate governance, and Protect the Council against significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified and opportunities still exist to protect the service against potential risks.*
- Adequate** *Controls are in place and to varying degrees are complied with but there are gaps in the process, which leave the Council exposed to some minor risks. There is, therefore, a need to introduce additional controls and improve compliance with existing ones, to reduce the risk to the Council.*
- Unsatisfactory** *Controls are considered insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls, and errors and omissions have been detected. Failure to improve controls leaves the Council exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.*
- Unacceptable** *Controls are generally weak or non-existent, leaving the system open to abuse or error. A high number of key risks remain unidentified and therefore, unmanaged.*

16. We aim to involve auditees at key stages of the audit process and to ensure their agreement to audit findings and recommendations. The table below sets out how auditees will be involved in the audit process this year. There are no changes to the process from last year.

Audit stage	Involvement
Agreement of brief at the start of the audit	Head of Service
Feedback and discussion of main findings arising from an audit	Service Manager/Head of Service
Agreed report	Chief Executive Chief Financial Officer

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	Director as appropriate Head of Service Service Manager
Audit satisfaction questionnaire completion	Head of Service/Service Manager as appropriate
Half yearly progress reports	Management Team and Performance & Governance Committee
Annual Report Annual Plan	Management Team and Performance & Governance Committee Committee

Audit Recommendations

17. We will continue to report recommendations by highlighting the significance of each item in relation to risk and materiality. Thus recommendations will be graded as follows:

High – Fundamental weaknesses in the system or process under review

Medium – System weaknesses which leave the system open to minor risks

Low – Desirable but non-threatening improvements

Public Sector Internal Audit Standards

Applying the IIA International Standards to
the UK Public Sector

Issued by the Relevant Internal Audit Standard Setters:



Llywodraeth Cymru
Welsh Government

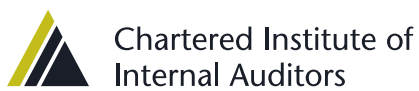


HM TREASURY



The Scottish Government
Riaghaltas na h-Alba

In collaboration with:



Public Sector Internal Audit Standards

Applying the IIA International Standards to
the UK Public Sector

Agenda Item 5

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SECTION 1

Introduction

A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

This document is therefore addressed to Accounting Officers, Accountable Officers, board and audit committee members, heads of internal audit, internal auditors, external auditors and other stakeholders such as chief financial officers and chief executives.

Framework overview

The Relevant Internal Audit Standard Setters (RIASS)¹ have adopted this common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing
- Code of Ethics, and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

Additional requirements and interpretations for the UK public sector have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF.

The overarching principle borne in mind when all potential public sector interpretations and/or specific requirements were considered was that only the minimum number of additions should be made to the existing IIA Standards. The criteria against which potential public sector requirements were judged for inclusion were:

- where interpretation is required in order to achieve consistent application in the UK public sector
- where the issue is not addressed or not addressed adequately by the current IIA Standards, or
- where the IIA standard would be inappropriate or impractical in the context of public sector governance (taking into account, for example, any funding mechanisms, specific legislation etc).

At the same time, the following concepts were also considered of each requirement or interpretation being proposed:

- materiality
- relevance
- necessity, and
- integrity (the additional commentary does not cause inconsistency elsewhere).

¹ The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

Wherever reference is made to the International Standards for the Professional Practice of Internal Auditing, this is replaced by the PSIAS. Chief audit executives are expected to report conformance on the PSIAS in their annual report.

Purpose of the PSIAS

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

Additional guidance is a matter for the RIASS.

Scope

The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced.

All internal audit assurance and consulting services fall within the scope of the Definition of Internal Auditing (see section 3). The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consulting services are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.

The Code of Ethics promotes an ethical, professional culture (see section 4). It does not supersede or replace internal auditors' own professional bodies' Codes of Ethics or those of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.

In common with the IIA IPPF on which they are based, the PSIAS comprise Attribute and Performance Standards. The Attribute Standards address the characteristics of organisations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. While the Attribute and Performance Standards apply to all aspects of the internal audit service, the Implementation Standards apply to specific types of engagements and are classified accordingly:

- Assurance (A) and
- Consulting (C) activities.

The Standards employ terms that have been given specific meanings that are included in the Glossary.

Key governance elements

Within the PSIAS, the terms 'board' and 'senior management' need to be interpreted in the context of the governance arrangements within each UK public sector organisation, as these arrangements vary in structure and terminology between sectors and from one organisation and the next within in the same sector.

It is also necessary for the chief audit executive to understand the role of the Accounting or Accountable Officer, Chief Financial Officer, chief executive, the audit committee and other key officers or relevant decision-making groups as well as how they relate to each other. Key relationships with these individuals and groups are defined for each internal audit service within its charter.

Applicability

The Relevant Internal Audit Standard Setters for the various parts of the UK public sector are shown below, along with the types of organisations in which the PSIAS should be applied.

SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER	Central Government	NHS	Local Government
CIPFA			<p>UK Local authorities.</p> <p>England & Wales only The Office of the Police & Crime Commissioner, constabularies, fire authorities, National Park authorities, joint committees and joint boards in the UK.</p> <p>Scotland only Strathclyde Partnership for Transport.</p>
HM Treasury	<p>UK* Government departments and their executive agencies and non-departmental public bodies.</p>		
Department of Health		<p>England Clinical Commissioning Groups. NHS Trusts.</p>	

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SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER	Central Government	NHS	Local Government
Scottish Government	Scotland The Scottish Government, the Crown Office and Procurator Fiscal Service, Executive Agencies and non-ministerial departments, non-departmental public bodies, the Scottish Parliament Corporate Body and bodies sponsored / supported by the Scottish Parliament Corporate Body.	Scotland NHS Boards, Special NHS Boards, NHS Board partnership bodies in the public sector (eg joint ventures, Community Health Partnerships etc), NHS Board subsidiaries.	
Welsh Government	Wales The Welsh Government, National Assembly for Wales and Welsh Government sponsored bodies including commissioners.	Wales Health Boards and Trusts.	
Northern Ireland Assembly: Department of Finance and Personnel (NI)	Government departments, executive agencies, non-ministerial departments, non-departmental public bodies, NI health and social care bodies and other relevant sponsored bodies.		

* Unless the body falls under the jurisdiction of the devolved governments.

Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

SECTION 4

Code of Ethics

Public sector requirement

Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform to the Code of Ethics as set out below. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's Code of Ethics extends beyond the definition of internal auditing to include two essential components:

Components

- 1 Principles that are relevant to the profession and practice of internal auditing;
- 2 Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

Public sector interpretation

The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this Code of Ethics.

1 Integrity

Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2 Objectivity

Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3 Confidentiality

Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4 Competency

Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

Public sector requirement

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*, information on which can be found at www.public-standards.gov.uk

Standards

Attribute Standards

1000 Purpose, Authority and Responsibility

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*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

Public sector requirement

The internal audit charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

1000.A1

The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

1000.C1

The nature of consulting services must be defined in the internal audit charter.

1010 Recognition of the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* in the Internal Audit Charter

The mandatory nature of the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* must be recognised in the internal audit charter. The chief audit executive should discuss the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* with senior management and the board.

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1100 Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work.

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels.

1110 Organisational Independence

The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

Interpretation:

Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- approving the internal audit budget and resource plan;
- receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;
- approving decisions regarding the appointment and removal of the chief audit executive;
- approving the remuneration of the chief audit executive; and
- making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

Public sector requirement

The chief audit executive must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

Public sector interpretation

Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.

1110.A1

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results.

1111 Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

1120 Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

1130 Impairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1

Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2

Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

1130.C1

Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

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1130.C2

If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

Public sector requirement

Approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

1200 Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 Proficiency

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

Interpretation:

Knowledge, skills and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organisations.

Public sector requirement

The chief audit executive must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

1210.A1

The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2

Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3

Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1

The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1

Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement’s objectives;
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and
- Cost of assurance in relation to potential benefits.

1220.A2

In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

1220.A3

Internal auditors must be alert to the significant risks that might affect objectives, operations or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220.C1

Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing and communication of engagement results;
- Relative complexity and extent of work needed to achieve the engagement’s objectives; and
- Cost of the consulting engagement in relation to potential benefits.

1230 Continuing Professional Development

Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.

1300 Quality Assurance and Improvement Programme

The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

Interpretation:

A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity’s conformance with the *Definition of Internal Auditing* and the *Standards* and an evaluation of whether internal auditors apply the *Code of Ethics*. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

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1310 Requirements of the Quality Assurance and Improvement Programme

The quality assurance and improvement programme must include both internal and external assessments.

1311 Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Periodic assessments are conducted to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments;
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

Public sector requirement

The chief audit executive must agree the scope of external assessments with an appropriate sponsor, eg the Accounting/Accountable Officer or chair of the audit committee as well as with the external assessor or assessment team.

1320 Reporting on the Quality Assurance and Improvement Programme

The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board.

Interpretation:

The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

Public sector requirement

The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

1321 Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"

The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement programme support this statement.

Interpretation:

The internal audit activity conforms with the Standards when it achieves the outcomes described in the *Definition of Internal Auditing*, *Code of Ethics* and *Standards*.

The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

1322 Disclosure of Non-conformance

When non-conformance with the *Definition of Internal Auditing*, the *Code of Ethics* or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.

Public sector requirement

Instances of non-conformance must be reported to the board. More significant deviations must be considered for inclusion in the governance statement.

Performance Standards

2000 Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

Interpretation:

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*.

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.

2010 Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

Interpretation:

The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.

Public sector requirement

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

2010.A1

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010.A2

The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.

2010.C1

The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan.

2020 Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

Interpretation:

Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

Public sector requirement

The risk-based plan must explain how internal audit's resource requirements have been assessed.

Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.

2040 Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

Interpretation:

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

2050 Coordination

The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

Public sector requirement

The chief audit executive must include in the risk-based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.

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2060 Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.

Interpretation:

The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

2070 External Service Provider and Organisational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity.

Interpretation:

This responsibility is demonstrated through the quality assurance and improvement programme which assesses conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

2100 Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

2110 Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information among the board, external and internal auditors and management.

2110.A1

The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.

2110.A2

The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

2120 Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation:

Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- Organisational objectives support and align with the organisation's mission;
- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the organisation's risk appetite; and
- Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

2120.A1

The internal audit activity must evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

2120.A2

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

2120.C1

During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2120.C2

Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.

2120.C3

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

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2130 Control

The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2130.A1

The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

2130.C1

Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes.

2200 Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.

2201 Planning Considerations

In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model; and
- The opportunities for making significant improvements to the activity's governance, risk management and control processes.

2201.A1

When planning an engagement for parties outside the organisation, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

2201.C1

Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations. For significant engagements, this understanding must be documented.

2210 Engagement Objectives

Objectives must be established for each engagement.

2210.A1

Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

2210.A2

Internal auditors must consider the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.

2210.A3

Adequate criteria are needed to evaluate governance, risk management and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management and/or the board to develop appropriate evaluation criteria.

Public sector interpretation

In the public sector, criteria are likely to include value for money.

2210.C1

Consulting engagement objectives must address governance, risk management and control processes to the extent agreed upon with the client.

2210.C2

Consulting engagement objectives must be consistent with the organisation's values, strategies and objectives.

2220 Engagement Scope

The established scope must be sufficient to satisfy the objectives of the engagement.

2220.A1

The scope of the engagement must include consideration of relevant systems, records, personnel and physical properties, including those under the control of third parties.

2220.A2

If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1

In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

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2220.C2

During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

2230 Engagement Resource Allocation

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

2240 Engagement Work Programme

Internal auditors must develop and document work programmes that achieve the engagement objectives.

2240.A1

Work programmes must include the procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme must be approved prior to its implementation and any adjustments approved promptly.

2240.C1

Work programmes for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 Performing the Engagement

Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.

2310 Identifying Information

Internal auditors must identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives.

Interpretation:

Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.

2320 Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 Documenting Information

Internal auditors must document relevant information to support the conclusions and engagement results.

2330.A1

The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2

The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

2330.C1

The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

2340 Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff is developed.

Interpretation:

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

2400 Communicating Results

Internal auditors must communicate the results of engagements.

2410 Criteria for Communicating

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans.

2410.A1

Final communication of engagement results must, where appropriate, contain internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

Interpretation:

Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

2410.A2

Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3

When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results.

2410.C1

Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

Agenda Item 5

2420 Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete and timely.

Interpretation:

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness. Constructive communications are helpful to the engagement client and the organisation and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

2421 Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

2430 Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”

Internal auditors may report that their engagements are “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*”, only if the results of the quality assurance and improvement programme support the statement.

2431 Engagement Disclosure of Nonconformance

When nonconformance with the *Definition of Internal Auditing*, the *Code of Ethics* or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle or rule of conduct of the *Code of Ethics* or Standard(s) with which full conformance was not achieved;
- Reason(s) for nonconformance; and
- Impact of nonconformance on the engagement and the communicated engagement results.

2440 Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation:

The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.

2440.A1

The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2

If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organisation the chief audit executive must:

- Assess the potential risk to the organisation;
- Consult with senior management and/ or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

2440.C1

The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2

During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organisation, they must be communicated to senior management and the board.

2450 Overall Opinions

When an overall opinion is issued, it must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

Interpretation:

The communication will identify:

- The scope including the time period to which the opinion pertains;
- Scope limitations;
- Consideration of all related projects including the reliance on other assurance providers;
- The risk or control framework or other criteria used as a basis for the overall opinion; and
- The overall opinion, judgment or conclusion reached.

The reasons for an unfavourable overall opinion must be stated.

Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

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2500 Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1

The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

2500.C1

The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2600 Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Interpretation:

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

Glossary

Add Value

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.

Adequate Control

Present if management has planned and organised (designed) in a manner that provides reasonable assurance that the organisation's risks have been managed effectively and that the organisation's goals and objectives will be achieved efficiently and economically.

Public sector definition: Assurance Framework

This is the primary tool used by a board to ensure that it is properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.

Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

Public sector definition: Audit Committee

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

Board

The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically, this includes an independent group of directors (eg a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the 'board' may refer to the head of the organisation. 'Board' may refer to an audit committee to which the governing body has delegated certain functions.

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Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. 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.

Chief Audit Executive

Chief audit executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title of the chief audit executive may vary across organisations.

Code of Ethics

The *Code of Ethics* of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing and Rules of Conduct that describe behaviour expected of internal auditors. The *Code of Ethics* applies to both parties and entities that provide internal audit services.

The purpose of the *Code of Ethics* is to promote an ethical culture in the global profession of internal auditing.

Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organisation. 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.

Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organisation is willing to accept.

Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement Opinion

The rating, conclusion and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

Engagement Work Programme

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

External Service Provider

A person or firm outside of the organisation that has special knowledge, skill and experience in a particular discipline.

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Fraud

Any illegal act characterised by deceit, concealment or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organisations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

Public sector definition: Governance Statement

The mechanism by which an organisation publicly reports on its governance arrangements each year.

Impairment

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

Independence

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Information Technology Controls

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure and people.

Information Technology Governance

Consists of the leadership, organisational structures and processes that ensure that the enterprise's information technology supports the organisation's strategies and objectives.

Internal Audit Activity

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

International Professional Practices Framework

The conceptual framework that organises the authoritative guidance promulgated by The IIA. Authoritative Guidance is comprised of two categories (1) mandatory and (2) strongly recommended.

Public sector interpretation

Only the mandatory elements apply for the purposes of the Public Sector Internal Audit Standards.

Public sector interpretation: International Standards for the Professional Practice of Internal Auditing

The Public Sector Internal Audit Standards take the place of the International Standards where applicable.

Must

The *Standards* use the word “must” to specify an unconditional requirement.

Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Overall Opinion

The rating, conclusion and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Appetite

The level of risk that an organisation is willing to accept.

Risk Management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation’s objectives.

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Should

The *Standards* use the word should where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Standard

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

Technology-based Audit Techniques

Any automated audit tool, such as generalised audit software, test data generators, computerised audit programmes, specialised audit utilities and computer-assisted audit techniques (CAATs).

