



DISTRICT COUNCIL

Despatched: 03.06.13

AUDIT COMMITTEE

11 June 2013 at 7.00 pm

Conference Room, Argyle Road, Sevenoaks

AGENDA

Membership:

Chairman: Cllr. Grint

Cllrs. Mrs. Bayley, Ms. Chetram, Mrs. Cook, Fittock, McGarvey, Orridge, Towell and Walshe

	<u>Pages</u>	<u>Contact</u>
Apologies for Absence		
1. Declarations of Interest Any declarations of interest not already registered.		
2. Responses of the Council, Cabinet or Council Committees to the Audit Committee's reports and/or recommendations (if any)		
3. Presentation on the role of the Audit Committee		Bami Cole Tel: 01732 227236
4. Grant Thornton Update	(Pages 1 - 26)	Adrian Rowbotham Tel: 01732 227153
5. Housing and Council Tax Benefit Grant - External Audit	(Pages 27 - 34)	Adrian Rowbotham Tel: 01732 227153
6. Investigations Team Annual Report	(Pages 35 - 56)	Glen Moore Tel: 01322343240
7. New Public Sector Internal Audit Standards	(Pages 57 - 100)	Bami Cole Tel: 01732 227236
8. Annual Review on the Effectiveness of Internal Audit 2012/13	(Pages 101 - 116)	Bami Cole Tel: 01732 227236
9. Internal Audit Annual Report	(Pages 117 - 156)	Bami Cole Tel: 01732 227236

10. **Risk Management Report**

(Pages 157 - 164)

Bami Cole
Tel: 01732
227236

11. **Work Plan**

(Pages 165 - 168)

EXEMPT INFORMATION

(At the time of preparing this agenda, there were no exempt items. During any such items which may arise, the meeting is likely NOT to be open to the public.)

To assist in the speedy and efficient despatch of business, Members wishing to obtain factual information on items included on the Agenda are asked to enquire of the appropriate Contact Officer named on a report prior to the day of the meeting.

Should you require a copy of this agenda or any of the reports listed on it in another format please do not hesitate to contact the Democratic Services Team as set out below.

For any other queries concerning this agenda or the meeting please contact:

The Democratic Services Team (01732 227241)

GRANT THORNTON UPDATE

Audit Committee - 11 June 2013

Report of the: Chief Executive Designate

Status: For Information

Key Decision: No

This report supports the Key Aim of effective management of Council resources.

Portfolio Holder Cllr. Ramsay

Head of Service Group Manager Financial Services – Adrian Rowbotham

Recommendation to Audit Committee: That the report be noted.

Introduction

- 1 Andy Mack, from Grant Thornton, would like the opportunity to present the following items to Members:
 - The Audit Plan for year ended 31 March 2013 (Appendix A).
 - Planned audit fee for 2013/14 (Appendix B).

Grant Thornton

- 2 Grant Thornton were appointed as the Council's external auditor to replace the Audit Commission with effect from 1 November 2012. This followed a procurement exercise to outsource the work of the Commission's in-house audit practice into five year regional contracts.

The Audit Plan for year ended 31 March 2013

- 3 This document explains the approach that Grant Thornton will be taking as they complete the external audit of 2012/13. The interim audit has already taken place and no significant issues were identified.
- 4 Officers have recently provided Grant Thornton with a comprehensive Value for Money self assessment document which will help them form their Value for Money conclusion.

Agenda Item 4

Planned audit fee for 2013/14

- 5 The Council's scale fee for 2013/14 is £56,641. Members will be pleased to see that this is the same fee as 2012/13 and a reduction of 40% compared to 2011/12.

Key Implications

Financial

- 6 The financial implications are included elsewhere in the report.

Community Impact and Outcomes

- 7 There are no community impacts or outcomes.

Legal, Human Rights etc.

- 8 There are no legal or human rights implications.

Equality Impacts

9

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

Risk Assessment Statement

- 10 The work carried out by the external auditors provides a thorough examination of the finances of the Council. Any significant issues found are reported to Members.

Appendices

Appendix A – Grant Thornton document – The Audit Plan for Sevenoaks District Council – Year ended 31 March 2013

Appendix B – Grant Thornton letter – Planned audit fee for 2013/14

Contact Officer(s):

Adrian Rowbotham Ext.7153

Helen Martin Ext.7483

**Dr. Pav Ramewal
Chief Executive Designate**

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The Audit Plan for Sevenoaks District Council

Year ended 31 March 2013

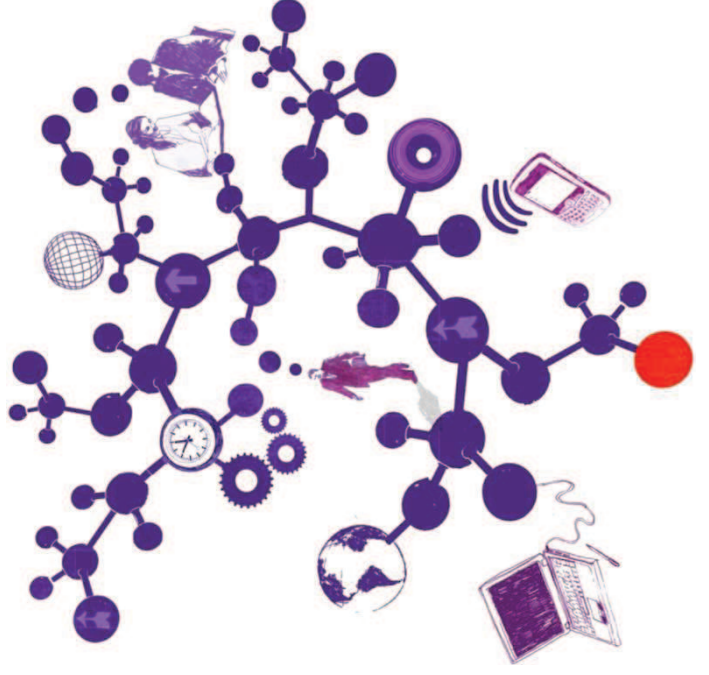
April 2013

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

Purpose

This Audit Plan highlights the key elements of our 2012/13 external audit strategy for Sevenoaks District Council. We have compiled it based on our audit risk assessment and discussion of key risks with management. We report it to you as those charged with governance for the Council for your consideration in accordance with International Standard on Auditing (UK & Ireland) 260.

Our responsibilities

As external auditors we are responsible for performing the audit in accordance with ISAs (UK and Ireland) and to give an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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The Audit Commission Act 1998 also requires us to assess annually the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, known as the value for money conclusion.


Communicating the results of audit work

We will communicate progress and findings from our audit work to you at key points during the year. Page 13 of this Plan includes the timescale for the audit and audit reporting which sets this out in more detail.

We look forward to working with the Council during the course of this year's audit.

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities		
<p>1. Reduction in funding and financial position</p> <ul style="list-style-type: none"> Local authorities continue to face significant financial pressures with real reductions in funding from central government likely to continue for the foreseeable future. 	<p>2. Participation in shared service arrangements</p> <ul style="list-style-type: none"> The Council has committed to a number of shared service arrangements with neighbouring authority Dartford Borough Council in recent years. These include Revenues and Benefits and Environmental Health and Internal Audit Services . 	<p>3. Local government reforms</p> <ul style="list-style-type: none"> The Local Government Finance Act 2012 introduced amendments to council tax support arrangements and business rate retention. These changes increase the council's exposure to finance risks and could have a significant impact on the authority's funding.
		
Our response		
<p>We will:</p> <ul style="list-style-type: none"> review and assess the resilience of the Council's medium term financial plans. 	<p>We will :</p> <ul style="list-style-type: none"> assess the effectiveness of shared service delivery, including the extent to which planned benefits are being realised. 	<p>We will :</p> <ul style="list-style-type: none"> assess how the council has incorporated the impact of the reforms into its medium term financial plan.

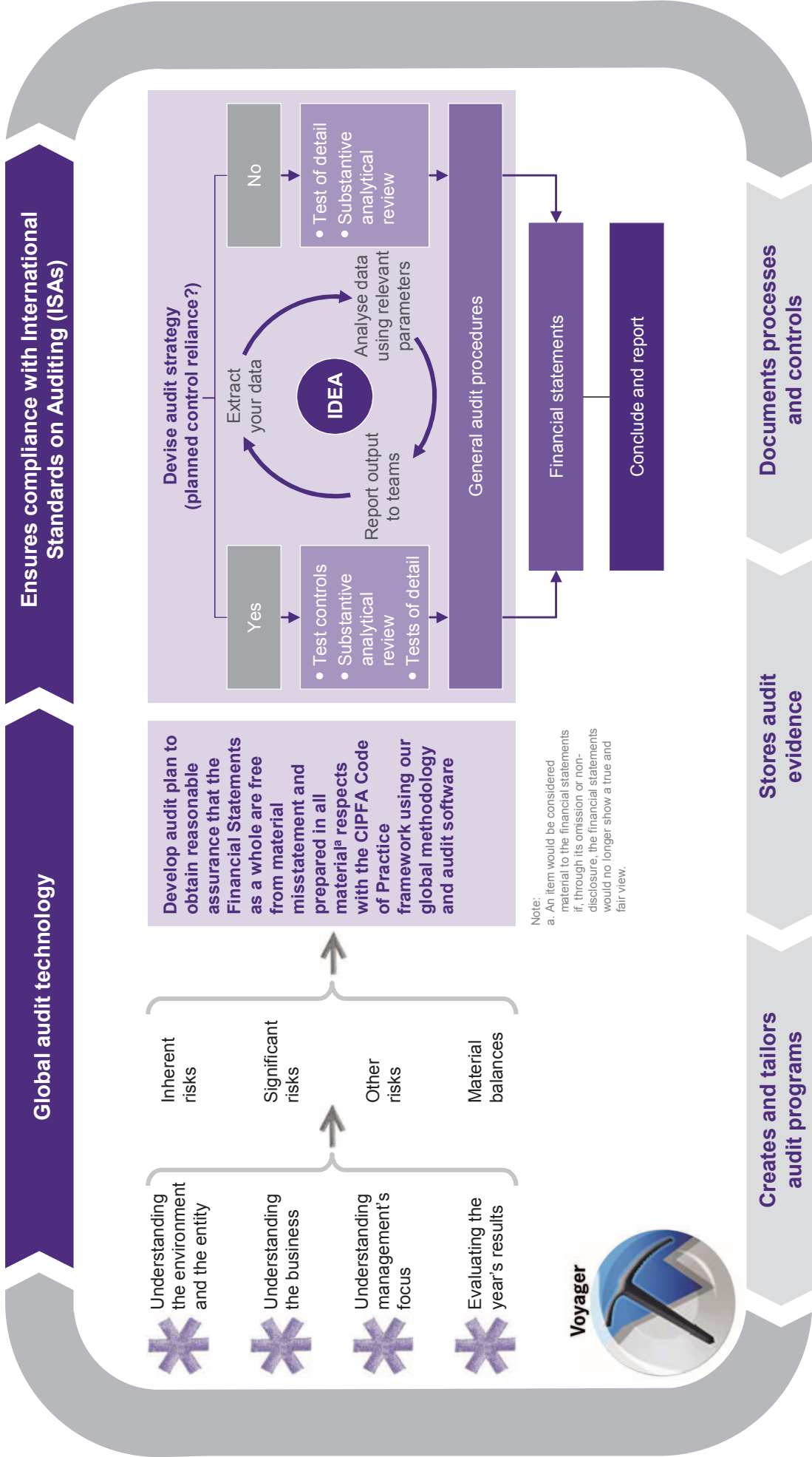
Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements			
<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Recognition of grant conditions and income 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement 2012/13 • Welfare reform Act 2012 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> • Planning for the impact of 2013/14 changes to the Local Government Pension Scheme (LGPS)
	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required 	

Our response			
<p>We will assess whether:</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing • grant income is recognised in line with the correct accounting standard 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate 	<ul style="list-style-type: none"> • We will review the arrangements the Council has in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> • We will assess how the Council is dealing with the impact of the 2013/14 changes
		<ul style="list-style-type: none"> • We will review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Creditors (Long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	✓
Employee remuneration	Yes	Employee remuneration	Medium	Other	Payroll tax obligation understated	✓
Accruals – Employee remuneration	Yes	Employee remuneration	Medium	Other	Employee remuneration accruals understated	✓
Costs of services – Housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	✓

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Planned work</p> <ul style="list-style-type: none"> • Sample test material revenue streams • Review and testing of revenue recognition policies • Sample test the collectability of significant receivable balances held by the Council at 31 March 2013 and the adequacy of the bad debt provision
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Planned work</p> <ul style="list-style-type: none"> • Preliminary review of accounting estimates, judgements and decisions made by Management • Discussions with management to identify unusual and/or significant transactions and their accounting treatment • Review of accounting estimates, judgements and decisions made by management • Testing of journals entries • Review of unusual significant transactions

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> Identify and walk through activity level controls 	<ul style="list-style-type: none"> Substantive testing of a sample of creditors Review list and test significant and unusual balances.
Employee remuneration	Payroll tax obligations understated	<ul style="list-style-type: none"> Identify and walk through activity level controls 	<ul style="list-style-type: none"> Substantive testing of payments made to HMRC
Employee remuneration	Employee remuneration accruals understated	<ul style="list-style-type: none"> Identify and walk through activity level controls 	<ul style="list-style-type: none"> Test a sample of payroll payments made during the year to gain assurance that employees have been remunerated at the correct rates during 2012/13. Testing will include agreement of HMRC returns to staff records.
Welfare Expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> Identify and walk through activity level controls 	<ul style="list-style-type: none"> Substantive testing of a sample of benefit claims Reconcile benefit expenditure to the benefit subsidy claim and assess the impact of any significant differences Complete benefit software diagnostic tool, uprating checks and analytical review compared to prior year subsidy claim

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work performed	Conclusion/ Summary
Internal audit	<p>We review the Council's Internal Audit arrangements, including progress in delivering the risk-based 2012/13 plan.</p> <p>We review specific Internal Audit reports in detail where these relate directly to our own audit work, for example, reviews of the Council's significant financial systems.</p> <p>We liaise with Internal Audit at key points during the year to agree testing requirements.</p>	<p>Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council.</p>
Walkthrough testing	<p>Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.</p>	<p>No significant issues were noted and in-year internal controls were observed to have been implemented in accordance with our understanding.</p>

Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Review of information technology (IT) controls	Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We concluded that, from the work undertaken to date, there are no material weaknesses which are likely to adversely impact on the Council's financial statements.	No significant issues were noted. IT controls were observed to have been implemented in accordance with our documented understanding.
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	We will follow up with journal testing of large and unusual transactions after the year end

Value for Money

Introduction

The Code of Audit Practice requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources



We will consider whether the Council is prioritising its resources with tighter budget

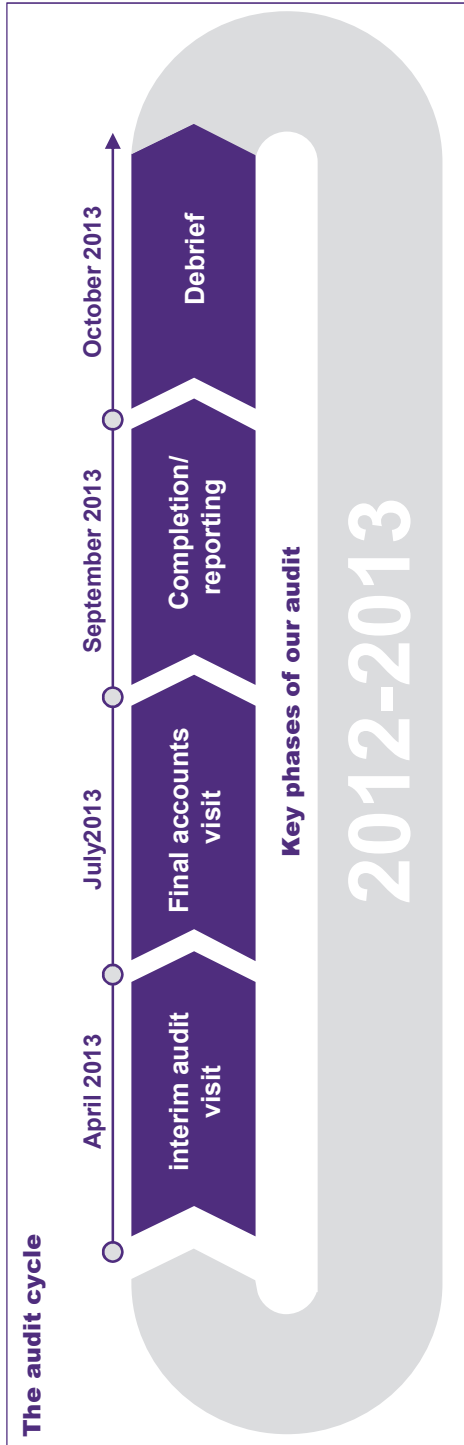
Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- the Council's medium term financial plan including the assumptions made;
- 2012/13 financial performance;
- progress in development and delivery of savings plans.
- monitor progress on large scale developments

Logistics and our team



By Date	Activity
Dec 2013	Planning meeting
4 th -12 th April 2013	Interim site work
11 th June 2013	The audit plan presented to Audit Committee
15 th July 2013	Year end fieldwork commences
29 th August 2013	Audit findings clearance meeting
10 th September 2013	P&G Committee meeting to report our findings
30 th September 2013	Sign financial statements and VFM conclusion
28 th October 2013	Issue Annual Audit Letter

Our team

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<p>Lauren Massoud Executive T 020 7728 3307 E Lauren.A.Massoud@uk.gt.com</p>	<p>Alan Land Technical Review Services T 020 7383 5100 E Alan.Land@uk.gt.com</p>

Fees and independence

Fees

	£
Audit of the accounts and value for money	56,641
Grant certification - estimate	30,300

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- We will advise on our fee for grant claim work later in 2013.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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9 April 2013

Dear Robin

Planned audit fee for 2013/14

The Audit Commission has set its proposed work programme and scales of fees for 2013/14. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

The Council scale fee for 2013/14 has been set by the Audit Commission at £56,641, which is the same fee as 2012/13.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission’s website at www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-work-programme.

The audit planning process for 2013/14, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Value for Money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources,

Agenda Item 4

focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VfM conclusion and a separate report of our findings will be provided.

Certification of grant claims and returns

The Council's] composite indicative grant certification fee has been set by the Audit Commission at £30,300.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2013	14,160
December 2013	14,160
March 2014	14,160
June 2014	14,161
Total	£56,641
Grant Certification	
June 2014	£30,300

Outline audit timetable

We will undertake our audit planning and interim audit procedures in January to March 2014. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in August 2014 and work on the whole of government accounts return in September 2014

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	January to March 2014	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.

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Final accounts audit	June to Sept 2014	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	January to August 2014	Audit Findings (Report to those charged with governance)	As above
Financial resilience	January to August 2014	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2014	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2014	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2013	Grant certification report	A report summarising the findings of our grant certification work

Our team

The key members of the audit team for 2013/14 are:

	Name	Phone Number	E-mail
Engagement Lead	Andy Mack	07880 456187	andy.l.mack@gtukint.com
Engagement Manager	Geoffrey Banister	0207 728 3023	geoffrey.c.banister@uk.gt.com
VFM/Advisory Lead	Geoffrey Banister	0207 728 3023	geoffrey.c.banister@uk.gt.com
Audit Executive	Lauren Massoud	02073835100	lauren.a.massoud@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council].

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Paul Dossett, our Public Sector Assurance regional lead partner (E-mail paul.dossett@uk.gt.com).

Agenda Item 4

Yours sincerely

Andy Mack
For Grant Thornton UK LLP

CC Pav Ramewal Deputy Chief Executive & Director of Corporate Resources

HOUSING AND COUNCIL TAX BENEFIT GRANT – EXTERNAL AUDIT

Audit Committee - 11 June 2013

Report of the: Chief Executive Designate

Status: For Information

Key Decision: No

Executive Summary: The audit of the Housing Benefits claim was amended and qualified and additional testing was required due to the errors found. Actions are being taken to address this in time for the 2012/13 audit.

The Benefits Service has received a 95% increase in the number of customer contacts between April 2011 and April 2013 largely due to the economic climate. A number of actions have been taken to address the impact of this increase which has resulted in the performance indicator 'Average number of days to process new claims' now being below the target level.

This report supports the Key Aim of effective management of Council resources.

Portfolio Holder Cllr. Ramsay

Head of Service Group Manager Financial Services – Adrian Rowbotham

Recommendation to Audit Committee: That the report be noted.

Introduction

- 1 Grant Thornton, as the Council's external auditor, is required to certify certain grant claims submitted by the Council. This certification typically takes place some 6-12 months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.
- 2 The following two grants were audited as they were above the £125,000 limit where certification is required:
 - Housing and council tax benefit scheme (value £33m).
 - National non-domestic rates return (value £32m).

Audit Outcome

- 3 The National non-domestic rates return was certified without amendment or qualification.

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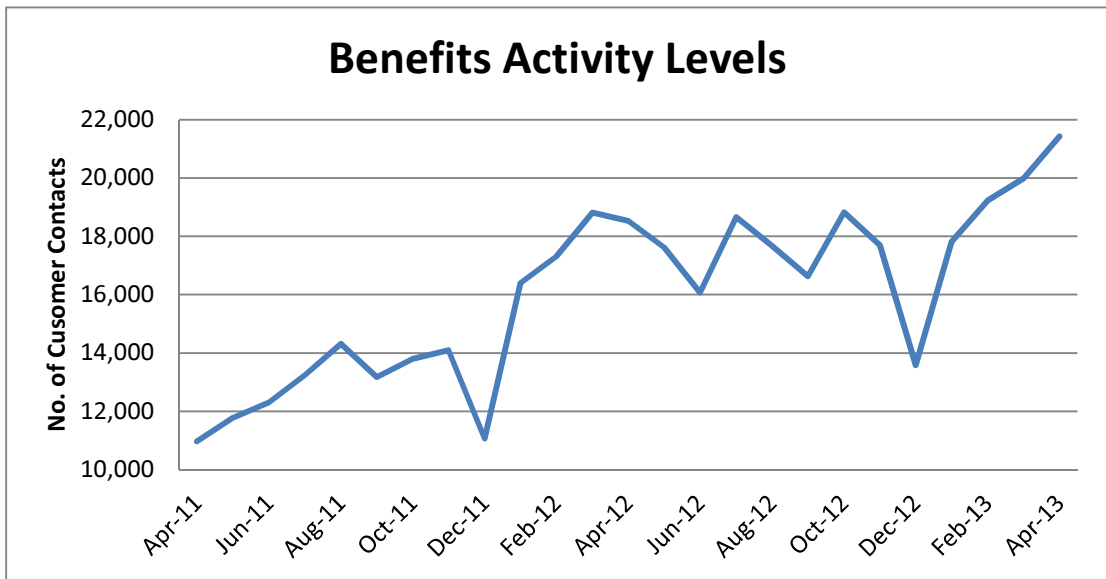
- 4 By far the most complex claim is the Housing Benefits claim which was amended and qualified.
- 5 The error rate found when completing this audit was higher than in previous years, although the impact of this on the value of the overall claim was relatively minimal, it is important to claimants that their benefit is calculated correctly. The DWP stipulates high standards of accuracy resulting in any claims being incorrect by as little as 1p are classified as errors and additional testing is then required on a larger sample.
- 6 The additional testing resulted in the audit fee for grant claims increasing from £24,406 in 2010/11 to £51,662 in 2011/12.

Actions being taken

- 7 As noted in the Action Plan at Appendix A, action has been taken to address some of the weaknesses identified. Analysis of the audit has been undertaken to identify improvements to the process itself, identifying training/awareness needs and improvements in office procedures, as noted below.
- 8 Training and awareness sessions have been undertaken with assessment staff in the key areas where errors were identified. Following these sessions quality checking has been targeted to ensure that claims processing is correct in the specific areas. On-going monitoring and quality checking of the key areas will continue.
- 9 Automation of the ATLAS process (tax credit information received direct from DWP) is now available on the back office processing system and is currently being implemented.
- 10 Grant Thornton will start the process earlier for the 2012/13 audit allowing more time for additional testing by officers and discussion with the auditors. An additional resource with suitable skills has been identified from within the team to assist with the audit as required. An external consultant with extensive experience in this area has also been used to assist with preparing for the 2012/13 audit.

Benefits Performance

- 11 The Benefits Service is one of the services provided by the partnership between Sevenoaks District Council and Dartford Borough Council which commenced on 13 December 2010.
- 12 As reported to Services Select Committee on 25 September 2012 and 1 November 2012, demands on the Benefits Service have significantly increased due to the economic climate. The graph below shows that the number of customer contacts for the Benefits Partnership has increased by 95% between April 2011 and April 2013.



13 The main performance indicator for the Benefits Service is the 'Average number of days to process new claims'. This peaked at 58 days in June 2012 but has now been brought down to 29 days in March 2013 (the target is 30 days).

14 Activity levels were the major reason why activity levels originally worsened but there were also several other factors including the following:

- The difficulty in recruiting assessors in an environment where people are changing careers due to the uncertainty caused by Universal credit for Benefits professionals.
- Staff spending time preparing for the welfare reform changes.
- The uncertainties and complexities of other benefits are causing staff to spend more time with people who are contacting the service.

15 We have taken a number of actions to address these issues which has resulted in the significant improvement in performance. These actions include:

- Recruited additional temporary staff in a competitive market.
- The development of the apprentices who started with the service in 2010.
- Using an external agency to process some claims on a unit cost basis.
- Redirected some calls to the Dartford BC Contact Centre.
- Re-engineered some processes.

16 Both authorities have allocated extra resources to fund this approach.

17 The additional resources allocated in 2012/13 have eliminated the backlog of claims outstanding and new claims are being dealt with much faster. This should

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result in reduced errors and this is supported by internal checking and an internal audit during the year.

Key Implications

Financial

18 The financial implications are included elsewhere in the report.

Community Impact and Outcomes

19 The accuracy and timeliness of processing Benefits claims can have an impact on claimants.

Legal, Human Rights etc.

20 There are no legal or human rights implications.

Equality Impacts

21

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

Risk Assessment Statement

22 The work carried out by the external auditors provides a thorough examination of the grant claim processes of the Council. Any significant issues found are reported to Members.

Appendices

Appendix A – Grant Thornton – Certification Work

Report 2011/12 – Action Plan

Contact Officer(s):

Adrian Rowbotham Ext.7153

Meryl Young Ext.7397

Dr. Pav Ramewal
Chief Executive Designate

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Grant Thornton – Certification Work Report 2011/12

Action plan

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
Housing and council tax benefit	Undertake a post mortem review of the 2011/12 claim to consider the nature of the errors identified and patterns in the error types. Ensure that appropriate arrangements are put in place to address these, including: <ul style="list-style-type: none"> tailored and specific training for staff focused quality control checks. 	H	Review undertaken in December and action plan agreed. Awareness training plan implementation started in January 2013 linked to focused Quality Checking procedure. Completed in February 2013. Update meeting held in January and good progress is being made.
Housing and council tax benefit	Undertake a specific review of the calculation of tax credit cases and determine the reasons for high error rates in this area.	H	Undertaken as part of the overall review. Tax credits are now more of an automated process due to ATLAS.
Housing and council tax benefit	Ensure that the requirements of the DWP following qualification are satisfied, including determining a reasonable amendment to the subsidy.	H	The requirements of the DWP following qualification have been satisfied.

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AUDIT COMMITTEE – 11 JUNE 2013

ANTI-FRAUD TEAM ANNUAL REPORT 2012/13

Report of the: Chief Executive Designate

Status: For Consideration

This report supports the Key Aim of Effective Management of Council Resources

Portfolio Holder Cllr. Ramsay

Head of Service Group Manager, Financial Services – Adrian Rowbotham

Recommendation: It be RESOLVED that:

1. The Committee note the content of the report and the work of the Anti-Fraud Team carried out in 2012/13 and that proposed for 2013/14.
 2. The committee approves the updated Anti-Fraud Sanctions and Prosecution Policy
-

Introduction

- 1 This report sets out details of the activities of the Anti-Fraud Team during 2012/13 and the team's work plan for 2013/14. Also attached as Appendix B is an updated Anti-Fraud Sanctions and Prosecution Policy, which has been updated to take account of changes as a result of the Welfare Reforms.
- 2 This is the first report of the Anti-fraud Team to the Audit Committee. The Anti-Fraud team is part of the Audit, Risk and Anti-Fraud shared services working jointly with Dartford Council. The team is responsible primarily for carrying out Benefits Fraud Investigations at both Councils.

Summary of Key Issues in the Report

- 3 Details of the activities of the team during the year 2012/13 are attached as Appendix A to this report. The team's performance is set out in section three of Appendix A. Section four outlines the implications for the local authority fraud investigation team in light of the creation of the Single Fraud Investigation Service. Section five sets out the team's priorities for 2013/14.
- 4 A key highlight during the year is the continued streamlining and standardising of procedures which contributes towards improvements in efficiency and the quality of service delivery. This has also resulted in further improvements in the team's overall performance during the year.
- 5 The attached Appendix B is an updated version of the joint Anti-Fraud Sanctions and Prosecution Policy which has been updated to reflect recent changes as a result of the welfare reforms.

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Partnership with Dartford Borough Council

- 6 This is the third report following the shared services arrangement with Dartford Borough Council for the provision of a joint investigations service. The service is based at Dartford Council and has operated well during the year, with improvements in service standards and performance.

Key Implications

Financial

- 7 This report has no financial implications.

Community Impact and outcomes

- 8 An effective benefits fraud service provides assurance that the Council has an adequate control environment in place, which would generate public confidence amongst the community, in addition to preventing the misuse of public funds.

Legal, Human Rights etc.

- 9 This report has no additional legal implications.

Resource (non-financial)

- 10 Not applicable

Value for Money and Asset Management

- 11 Not applicable.

Equality

12

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

Sustainability Checklist

13 Not applicable.

Conclusions

14 The report sets out the achievements of the Benefits Fraud Investigations Team for the period 2012/013, and work planned for 2013/14. Members are requested to note the report and approve the updated Sanctions and Prosecution Policy.

Risk Assessment Statement

15 The Council is required to have proper arrangements in place to deal with fraud and corruption, including benefits fraud. The work of the team meets this requirement and has effectively delivered service improvements whilst generating efficiency for the Council. However continuous risk assessment is undertaken to ensure that any potential threats or opportunities posed by shared services working are properly addressed.

Appendices

Appendix A – Investigations Team Annual Report 2012/13

Appendix B – Sanctions and Prosecution Policy.

Background Papers

The code of Crown Prosecutions 2013
Welfare Reform Act 2012

Contact Officer(s):

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Bami Cole Ext. 7236

Pav Ramewal
Chief Executive Designate

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Anti-Fraud Team

12/13 – End of Year Report

1. Introduction

This report sets out the achievements of the Anti-Fraud Team for 2012/13, outlines the team's priorities for 2013/14 and introduces the revised Anti-Fraud, Sanctions and Prosecution Policy for cases of proven Housing Benefit fraud and Council Tax Support fraud in light of the replacement of Council Tax Benefit with Council Tax Support.

This report only relates to work completed by the Anti-Fraud Team on behalf of Sevenoaks District Council.

2. Background

The Department for Work & Pensions estimate that in 2012/2013 the amount of benefit expenditure lost to fraud was £1.2 billion (or 0.7% of total benefit expenditure). A range of measures have been put in place by the Department for Work & Pensions in the fight against fraud and error. These include new tougher penalties to deter fraudsters including penalties of up to £2000 without being taken to court.

Sevenoaks District Council takes benefit fraud very seriously. Following the creation of the Audit, Risk and Anti-Fraud Team in September 2010 the Anti-Fraud Team the team has continued to maintain a close working relationship with the shared service Revenues & Benefits Team (based at Sevenoaks District Council's main office in Argyle Road, Sevenoaks) via occupation of a hot-desk in the Sevenoaks office.

The Anti-Fraud Team's primary role is to provide a benefit fraud investigation service for Sevenoaks District Council and Dartford Borough Council, conducting criminal standard investigations into allegations of benefit fraud and working closely with the Fraud Investigation Service from the Department for Work & Pensions on joint cases where there are multiple Social Security benefits in payment. The role of the Anti-Fraud Team has been extended since its creation in September 2010, and as this report shows, work is now being conducted in non-benefit related areas of local government work, such as Council Tax discount awards, an aspect which is potentially open to abuse and which lends itself to recovering underpayments of Council Tax. Further details of the work done in this area and outcomes are set out on page 3 below.

3. Performance

This section charts the work of the Anti-Fraud Team for Sevenoaks District Council for the period 1.4.2012 to 31.3.2013 in areas of: benefit fraud and incorrect Council Tax single person discount awards.

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Benefit Fraud

During 2012/2013 Sevenoaks District Council completed 94 benefit fraud investigations. In 32 of these cases, the authority decided that there was sufficient evidence to substantiate an overpayment of either Housing Benefit and/or Council Tax Benefit.

In total, Housing Benefit overpayments amounting to £153,697.86 and Council Tax Benefit overpayments of £41,543.11 were discovered through fraud investigations.

These overpayments were deemed recoverable by the authority and irrespective of any further action taken by the authority officers within the Council will be actively seeking the full repayment of all of these debts. The recovery of these amounts does not fall within the remit of the Anti-Fraud Team, but is co-ordinated by the shared services Revenues Department.

As soon as an overpayment is raised the Anti-Fraud Team, acting in compliance with the Council's Sanctions and Prosecution Policy will put forward a written recommendation to a panel of senior officers within the Council so that the most appropriate sanction can be applied according to the circumstances of each case. The merits of each case are considered very carefully and appropriate action taken as necessary. When joint investigations are conducted with the Department for Work & Pensions a cohesive decision is made on the most appropriate sanction taking into account both the policies and procedures of both organisations.

To date £9,252.69 of the overpaid Housing Benefit and £17,576.19 of the overpaid Council Tax Benefit has been actively recovered.

In 2012/2013, Sevenoaks District Council issued a total of 21 benefit sanctions this included 3 Formal Cautions, 5 Administrative Penalties and 13 prosecutions.

A benefit sanction can be either:

A Formal Caution – Claimant admits the offence in question and signs a declaration to this effect and repays all overpaid benefit back. The offence is relatively minor. For a case to be considered for a sanction the authority must be able to prosecute the offences involved and so the investigation file must be of a prosecution standard. If a claimant is offered either a Formal Caution or Administrative Penalty, but chooses to decline this sanction, then the authority has within its powers to prosecute that individual.

An Administrative Penalty – Claimant does not admit the offence in question, but agrees to repay all overpaid benefit plus a penalty on top as an alternative to legal action being taken against them. The offence is relatively minor.

Prosecution – Claimant has to repay all overpaid benefit and legal action is instigated because offence is deemed too serious for an alternative sanction to be considered.

Council Tax Single Person Discount Awards

In July 2012, the Anti-Fraud Team co-ordinated a data match exercise in which Sevenoaks District Council's records relating to Council Tax single adult occupier discount award recipients were compared to credit reference data in order to highlight potential incorrect claims for such discounts.

14,406 Council Tax discount records were matched and in August 2012 Sevenoaks District Council received 2,437 'high-risk' referrals (16.9% of the original batch) suggesting that there may be a potential discrepancy in the fact that credit data suggested that there was two adults actively claiming credit at an address where a sole adult discount was being claimed.

These referrals have been examined by officers from the Anti-Fraud Team and a temporary investigative resource employed to assist with the exercise. To date 1,300 referrals have been sifted and letters issued to tax payers where further information is required.

So far 355 individual enquiries have been completed and 79 discounts have been removed, which has meant that Sevenoaks District Council can collect an additional £53,131.18 in Council Tax revenue annually. This exercise is on-going and will hopefully be concluded in 2013/2014.

4. The Single Fraud Investigation Service

As previously reported as part of the strategy for tackling fraud and error in welfare benefits it has been announced that it is the coalition government's intention to create a Single Fraud Investigation Service. The Single Fraud Investigation Service (SFIS) will bring together the combined expertise of the welfare benefit fraud investigation work undertaken by the Department for Work & Pensions (DWP) Fraud Investigation Service (FIS), local authority Fraud Investigators and Her Majesty's Revenues & Customs (HMRC) officers dealing with Tax Credits into a single service.

The Department for Work & Pensions are in the process of trialling different models for running this new team through the creation of four pilot sites, with more sites being proposed during 2013/2014. Whilst these trials are in operation SFIS will remain a partnership arrangement, where the staff remain employed by their existing employers.

Sevenoaks District Council is not a pilot site and as such will continue to operate under its existing policies and procedures. Once it becomes a pilot site and the partnership arrangement is still in force the authority will be able to decide what percentage of its staff time is allocated to SFIS work and what percentage is allocated to local authority issues such as Council Tax Support fraud and Council Tax single person discount irregularities.

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5. Priorities for 13/14

Benefit Fraud Investigations

Continue to provide high quality fraud investigation work, and where appropriate, conduct joint investigations with colleagues from the Department for Work & Pensions to enable the correct action to be taken against any proven perpetrators, in-line with the respective benefit fraud prosecution policies.

Data Match Schemes

Continue to participate in all available anti-fraud data-match schemes, for example, the Housing Benefit Matching Service (HBMS), The National Fraud Initiative (NFI), in order to identify potential discrepancies in benefit payments and to take action against those found to have claimed public money fraudulently.

Non Benefit Related Fraud

Fraud Manager to conduct a review of Council's Council Tax Single Person Discount Award and Non Domestic Rates procedures to ensure that internal systems are robust and protected as much as possible from fraud abuse.

Liaison with External Fraud Agencies

Continue to work closely with the Department for Work & Pensions in all aspects of welfare benefit fraud investigation.

Targets for 2013/2014

<u>Item</u>	<u>Annual Target</u>
Number of successful benefit fraud prosecutions	10
Number of successful other benefit sanctions issued	15
Amount of overpaid Housing Benefit & Council Tax discovered through benefit fraud investigations	£250,000

Audit, Risk & Anti-Fraud Team

Housing Benefit

Local Council Tax Support

**ANTI-FRAUD, SANCTIONS
AND PROSECUTION POLICY**

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Housing Benefit & Council Tax Support Anti-Fraud Policy

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Housing Benefit & Council Tax Support Sanction and Prosecution Policy

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8	Evidential Test	10
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Housing Benefit & Council Tax Support Anti-Fraud Policy

1.0 Introduction

- 1.1 In 2010 Sevenoaks District Council and Dartford Borough Council combined their Audit & Fraud and Revenues & Benefits Services into single shared services. The primary aim of this joint venture was to continue to provide a high quality service, supporting the most vulnerable members within the two districts, in the most efficient and cost effective way.
- 1.2 Both Councils have a zero-tolerance to all forms of fraud & corruption. This message is keenly promoted through the issuing of a trio of joint working policies – The Anti-Fraud & Corruption Strategy, The Whistle-blowing Strategy and this policy, The Housing Benefit & Council Tax Support Anti-Fraud, Sanctions and Prosecution Policy.
- 1.3 Housing Benefit (HB) is paid to assist people on a low income to meet the rental liability on their main and principal home. Council Tax Support (CTS) is paid to assist people on a low income to meet the annual Council Tax liability on their main and principal home. Housing Benefit is a means-tested benefit, administered by local authorities, on behalf of the Department for Work & Pensions (DWP). Council Tax Support is a means-tested Council Tax discount administered by local authorities.
- 1.4 The Housing Benefit & Council Tax Support Anti-Fraud Policy re-enforces Sevenoaks District Council's and Dartford Borough Council's commitment to :
- Preventing fraud and error entering their benefit/discount assessment caseloads by having robust internal systems and checking procedures in place.
 - Detecting incorrect and fraudulent claims for both benefit and discounts by running pro-active drives as well as fully participating in all the government led anti-fraud data-match initiatives.
 - Putting incorrect claims right quickly and getting back what we are owed.
 - Issuing sanctions, in line with the joint Sanctions and Prosecution Policy, against people proven to have cheated the system.
 - Where appropriate, deter future fraudulent claims by publicising the work of the Anti-Fraud Team and the punishments handed out by courts in prosecution cases.

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1.5 The Housing Benefit & Council Tax Support Anti-Fraud, Sanctions and Prosecution Policy will be reviewed annually to take into account any legislative and procedural changes.

2.0 Definition of Benefit Fraud

2.1 Benefit fraud is where a person, dishonestly, or not, whilst applying for or in receipt of a Social Security benefit:

- makes a false statement,
- produces a false document and/or
- fails to promptly notify of a relevant change in circumstances which the person knows will affect the rate of benefit there are entitled to/or are in receipt of.

2.2 Most benefit fraud offences are prosecuted under the Social Security Administration Act 1992:

- Section 112(1)a – making a false statement, producing a false document
- Section 112(1A) – failing to report a relevant change in circumstances.
- Section 111A – obtaining benefit dishonestly.

However other relevant pieces of legislation can be used, for example the Fraud Act 2006, where the crime is of a specific type.

3.0 Council Tax Support Fraud

3.1 Council Tax Support came into existence on 1st April 2013 and replaced Council Tax Benefit.

3.2 Council Tax Benefit was a Social Security benefit administered by local authorities on behalf of the Department for Work & Pensions. Council Tax Support is a discount awarded against the annual Council Tax liability, by local authorities, created by the Local Government Finance Act 2012.

3.3 Council Tax Support Fraud offences will be prosecuted under section 14B of the Local Government Finance Act 1992.

4.0 The Anti-Fraud Team

4.1 The Anti-Fraud Team has a main base at Dartford Borough Council's Civic Centre in Dartford and also a hot-desk arrangement at Sevenoaks District Council's Argyle Road offices in Sevenoaks. The team comprises specially trained officers, responsible for investigating allegations of fraud & corruption for both Dartford Borough Council & Sevenoaks District Council.

4.2 The teams' main role is the investigation and detection of suspected Housing Benefit & Council Tax Support frauds, but where called upon, the officers will conduct specific enquiries relating to Housing Tenancy fraud, Council Tax fraud and other frauds found within local government.

The Anti-Fraud Team's main objectives are:

- Assist with the creation of systems which help prevent fraud from entering the system and to unearth fraud once it has established itself.
- To teach front-line staff techniques of how to identify fraud and instil confidence in the procedure for reporting suspicions relating to potential fraudulent claims and how they can seek advice for handling such situations.
- To maximise the potential results and effectiveness of data-matching exercises available to local councils which seek to identify fraud using all the appropriate legal gateways open to them.
- To facilitate joint working with external anti-fraud agencies to ensure that the councils have a cohesive approach to the fraud investigation process.
- To investigate instances of suspected benefit fraud, collate evidence which assists in the determination of the validity of a benefit claim and to take appropriate action against any perpetrators.

4.3 The Anti-Fraud Team is managed by the Fraud Manager, who reports to the Audit, Risk & Anti-Fraud Manager and is responsible for the day-to-day management of 4 Investigation Officers (2 full-time, 2 part-time) operating across two sites.

4.4 Cases of suspected benefit fraud can be referred to the Anti-Fraud Team electronically by members of the Benefit Assessment Team (via forms located on the benefit operating system 'Academy') or via e-mail/in writing from all other internal departments. There is a dedicated fraud hotline (0800 496 3245) situated within the Dartford office of the Anti-Fraud Team. Outside office hours there is an answerphone service attached to this number.

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5.0 Culture

5.1 The Councils take any form of fraud or corruption very seriously. Separate Anti-Fraud & Corruption and Whistleblowing policies have been devised to embrace the issues of fraud and corruption. The Whistleblowing Policy specifically encourages both staff and members of the public to report such matters, in confidence, to the relevant Councils.

5.2 The Councils are committed to ensuring that benefit is paid to only those who are entitled to receive it.

5.3 The Councils are committed to ensuring that their benefits service is easily accessible and can be taken up by all members of society irrespective of their social status or background.

5.4 The Councils will, where appropriate, work in co-operation with external agencies such as the Department for Work & Pensions, the Police, Her Majesty's Customs & Excise, the Border Force Agency and other local authorities in order to combat benefit fraud.

5.5 The Councils will maintain and advertise a 24-hour reporting line (0800 496 3245 and other points of reference felt appropriate) so suspected benefit fraud can be reported.

5.6 All reports of suspected fraud will be logged and assessed in line with the joint fraud referral processing policy (within at least 10-working days) and an appropriate course of action assigned to each allegation.

5.7 The Councils will, where proportionate and reasonable, actively report successive prosecutions through local media sources in order to promote and publicise the work of the Fraud Team to act as a deterrent to other would-be benefit fraudsters.

5.8 All investigation staff will receive quality training to ensure that investigations are conducted in accordance with the relevant legislation and that all procedures & practices are lawful and fair.

5.9 The Councils will actively seek the repayment of **all** overpaid benefit deemed recoverable.

6.0 Prevention, Detection and Investigation

6.1 All benefit staff can contact the Anti-Fraud Team by telephone or e-mail to receive advice and guidance in relation to the handling of potential fraudulent claims for benefit/discounts and they will receive regular updates of any emerging trends in the field of benefit fraud which they need to be aware of when they are examining claims for Housing Benefit & Council Tax Support.

6.2 Benefit Staff will receive regular reports on the Fraud Team's successes and specifically the way in which these cases were discovered, so that useful lessons can be learned, which will hopefully prevent more fraudulent claims entering the system in the future.

6.3 Dartford Borough Council and Sevenoaks District Council are fully committed to all the available government anti-fraud schemes and performance measures (For example, Housing Benefit Matching Service (HBMS), National Fraud Initiative (NFI)) and regularly allow their benefits data to be cross-matched with outside organisations for the lawful purpose of highlighting potential instances of fraud within the benefits caseload.

6.4 All investigators are PINS accredited fraud investigators (PINS - Professionalism in Security). This is a nationally recognised qualification, accredited by Portsmouth University, and requires each student to successfully complete 7 separate fraud modules, with exams at the end of each module.

6.5 The PINS qualification ensures that all investigation staff are fully conversant with all the relevant legislation covering the collation and recording of evidence (Criminal Procedures & Investigations Act 1996); the interviewing and treatment of suspects (Police & Criminal Evidence Act 1984) and authorisation of/use of surveillance techniques (Regulation of Investigatory Powers Act 2000).

6.6 In cases where the Housing Benefit and/or Council Tax Support recipient is in receipt of another Social Security benefit (for example - Income Support, Job Seekers Allowance or Employment Support Allowance) local authority investigators will join forces with colleagues from the Department for Work & Pensions' Fraud Investigation Service to conduct a joint investigation.

6.7 Dartford Borough Council and Sevenoaks District Council have an excellent working relationship with the local Fraud Investigation Service (DWP) and work hard to maintain the close links between the organisations. A majority of the benefit fraud investigations instigated by the Councils will be joint ventures with the DWP.

6.8 All persons suspected of submitting fraudulent benefit claims/failing to declare relevant changes in their circumstances are invited to attend a formal interview to:

- show the claimant the evidence the authority has collated which appears to show that certain offences have been committed and,

Agenda Item 6

- seek a response/explanation from the claimant to the evidence shown as well as understand any mitigating circumstances that the claimant may have had, during the period in question, which may have caused their actions/behaviour.
- At the end of the interview the person being interviewed will be informed by the investigating officer that, where appropriate, a report will be issued to the Benefit Assessment Team to adjust any payments of benefit they may have had and depending on the size of their overpayments and the circumstances under which this overpayment arose, a panel of senior managers will decide what action, if any, the relevant local authority would take in this case.

6.9 All cases in which the investigation results in an overpayment of benefit or the removal of a discount will be reviewed against the Housing Benefit & Council Tax Support Sanctions and Prosecution Policy to decide upon the most appropriate action to take.

6.10 The decision on appropriate action is not taken lightly and as such it is based upon the informed decisions of a panel of senior officers within the local authority taking all aspects of the case into account.

Housing Benefit & Council Tax Support Sanctions and Prosecution Policy

7.0 Introduction

7.1 Dartford Borough Council and Sevenoaks District Council have a duty to protect the public purse and as part of that commitment they have a responsibility to prevent and detect fraud. This policy is designed to provide clear guidance on the measures available to both authorities on how to deal with those who are found to have committed either benefit fraud and/or Council Tax Support fraud.

7.2 The guidelines in this policy must be implemented in a fair and unbiased manner each investigation is unique and must be judged on its own merits, with regard to the full facts of the case before an appropriate sanction is imposed.

7.3 In general the Councils have 4 main options for further action when an investigation concludes that there has been an overpayment of benefit or an incorrectly awarded Council Tax discount:

a) **A Warning letter** – Letter issued by the investigating officer explaining that the Council has decided that it is not in the public interest to take any further action against them, but they should make every effort to ensure that they repay the overpaid benefit and/or their increased Council Tax liability as quickly as possible in order to prevent civil recovery action being instigated.

b) **Formal Caution** (benefit offences only) – The offender signs a written admission to all the alleged offences and the authority retains this statement for 5 years. The cautions are logged on a national database of all sanctions (administered by the DWP) and any future sanction action would be influenced by earlier decisions.

c) **Administrative Penalty** – The offender does not admit to the alleged offences in this instance, but accepts to pay an additional amount to the authority to prevent the Council from instigating legal action. Again the penalty action taken in benefit fraud cases is logged on a national database so that, where necessary, checks can be made in case that claimant is the subject of an investigation in the future.

d) **Prosecution** – the local authority takes the claimant to court, citing offences either under the Social Security Administration Act 1992 (for benefit fraud offences) or under the Local Government Finance Act 1992 (for Council Tax Support fraud offences), or other legislation if found appropriate.

7.4 Formal Cautions, Administrative Penalties and prosecution are commonly referred to as sanctions. A local authority will only issue a sanction when there is a realistic prospect of obtaining a successful prosecution. In cases where offenders are offered a caution or penalty and these sanctions are refused the local authority will review the case again and decide if legal proceedings are now appropriate.

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7.5 In all investigations conducted by the Anti-Fraud Team evidence is obtained and collated in accordance to the Police & Criminal Evidence Act 1984 and the Criminal Procedures and Investigations Act 1996. This means that, if deemed appropriate by senior management, cases can be referred for legal proceedings.

7.6 A case will only be deemed suitable for prosecution after it has been thoroughly reviewed and confirmed that it meets the requirements of the Code for Crown Prosecutors.

7.5 There are 2 main requirements – The Evidential Test and The Public Interest Test.

8.0 Evidential Test

8.1 The prosecuting authority must be satisfied that there is sufficient evidence to provide a 'realistic prospect of conviction' on each charge. Consideration should be given to what the claimant's defence may be and how it is likely to affect the prospects of conviction.

8.2 A realistic prospect of conviction is an objective test based solely upon the prosecuting authority's assessment of the evidence and any information that the authority has about the defence that the suspect may put forward. The authority must then decide whether, if properly directed in accordance with law, a jury (or magistrate) is more likely to convict than acquit a defendant of the charge(s) against them.

8.3 When deciding if there is sufficient evidence to prosecute the authority will consider:

Can the evidence be used in court?

- Is it likely that the evidence will be excluded by the court? (For example, is it likely it may be excluded due to the way that it was obtained?)
- Is the evidence hearsay? If so, is the court likely to allow it to be represented under any of the exceptions which permit such evidence to be given in court?
- Does the evidence relate to the bad character of the suspect? If so, is the court likely to allow it to be presented?

Is the evidence reliable?

- Does the suspect have a credible explanation for their actions?
- Is there evidence which might support or detract from the reliability of a confession? Is its reliability affected by factors such as the suspect's level of understanding?
- Is the identification of the suspect likely to be questioned?
- Are there concerns over the accuracy, reliability or credibility of any of the evidence of any witness?
- Do any of the witnesses have previous convictions or out-of-court disposals which may affect their credibility?

9.0 Public Interest Test

9.1 When the prosecuting authority has deemed that the case has sufficient evidence to provide a realistic prospect of conviction it must then consider if it is in the 'public interest' for the legal action to progress. Every case is different and many will have mitigating aspects which will influence the authority's decision to either take legal action or refrain from instigating legal proceedings.

9.2 Some common public interest factors tending against prosecution:

- The offence committed can be proven to be the result of a genuine mistake or misunderstanding on the claimant's part.
- The claimant's age would deter the authority from taking further action.
- The claimant's mental or physical health would deter the authority from taking further action.
- The claimant has repaid the overpaid benefit in its entirety (balanced with the seriousness of the offence)
- It can be established that part of the overpaid benefit was due to an error in benefit administration either on the part of the local authority or the Department for Work & Pensions.
- The investigation process contains unexplained long delays.
- The consequences of the claimant receiving a criminal record may far outweigh the benefits of the authority taking the action.

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- The claimant's family circumstances or adverse recent events may deter the authority from taking the person to court.

9.3 Some common public interest factors tending in favour of prosecution:

- The seriousness of the offence as reflected by the general guideline thresholds set in advance by local authority (see section 9.4).
- The claimant held a position of trust or responsibility.
- The offences are pre-planned or pre-meditated or contain an element of pre-planning or an intention to deceive the authority to obtain benefit.
- The claimant has previous convictions or sanctions related to the current offence.
- The offences are repeated or continued over a long period.
- The claimant has been offered an alternative sanction (i.e, Formal Caution or Administrative Penalty), but has refused it.

9.4 As a guideline, if the adjudicated collective overpayment/incorrectly awarded discount is above £2,000, the local authority would deem this a serious offence and the case should be considered for prosecution. In cases where the collective overpayment/incorrectly awarded discount is below £2,000 the authority may consider an alternative to prosecution, for example a Formal Caution (benefit offences only) or an Administrative Penalty. However, senior management may decide that legal proceedings are still appropriate due to the circumstances in which the overpayment occurred.

10.0 Formal Cautions and Administrative Penalties

10.1 The Council may consider offering a Formal Caution in relation to a benefit offence following the review of the evidence and public interest criteria and a decision has been made that it is not in the public interest to proceed to legal action. The case should fulfil the following criteria:

- The makes an admission of the offence
- In joint investigations the DWP have decided it is appropriate to issue a Formal Caution
- The claimant has not been issued with a Formal Caution or Administrative Penalty in the last 5 years
- The caution is deemed to be an appropriate deterrent to prevent this happening again in the future

10.2 In cases where the offender does not admit the offence put before them the Council may offer them an Administrative Penalty as an alternative to prosecution. The level of the penalty would be as follows:

- Benefit offences committed before 8.5.2012 the penalty imposed would be 30% of the net adjudicated overpayment.
- Benefit offences committed wholly on or after 8.5.2012 the penalty imposed would be 50% of the net adjudicated overpayment, with a minimum of £350 up to a maximum of £2,000.
- Council Tax Support offences the penalty imposed would be 50% of the excess reduction of Council Tax liability, with a minimum of £100 up to a maximum of £1000.

11.0 Publicity

The Council has a statutory responsibility to prevent the waste, theft and fraud of public money. To this end, the Council has put in place a range of measures to ensure that benefits are paid only to those persons who are entitled to them.

These measures include actions that are taken after detection of an offence, as well as measures to prevent and deter the commission of an offence.

One such measure is publication of convictions. The publicity generated by a conviction for benefit fraud acts as a deterrent to others seeking to claim benefit to which they are not entitled. It also reassures the general public that the Council takes a serious view of fraud and actively seeks to protect public funds.

The Councils will therefore consider publicising successful convictions of fraud (subject to obtaining prior advice from the relevant legal services section), together with specific details of the offence(s) in question. In reaching a decision as to whether to publish such information, the Council will consider the following factors:

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- The specific details of the offence committed.
- The public interest in disclosing personal information e.g. the deterrent effect of the publication.
- Whether the publication would be proportionate.
- The personal circumstances of the offender.
- Whether any other persons may be affected by the publication e.g. family members.

This list is not exhaustive and other factors may be relevant in the circumstances of an individual case.

When it is considered appropriate to publish details relating to a conviction, the reasons for such publication will be recorded by the Anti-Fraud Team.

Any press release on the Council's website will normally be removed after a period of 1 month.

AUDIT COMMITTEE – 11 JUNE 2013

NEW PUBLIC SECTOR INTERNAL AUDIT STANDARDS

Report of the: Chief Executive Designate

Status: For Consideration

This report supports the Key Aim of Corporate Performance Plan “Effective Management of Council Resources”

Portfolio Holder Cllr. Ramsay

Head of Service Group Manager, Financial Services – Adrian Rowbotham.

Recommendation:

It be RESOLVED that Members note the contents of this report.

Introduction

- 1 This report provides a summary to Audit Committee Members on the new Public Sector Internal Audit Standards which came into effect on 1 April 2013. The report sets out the key changes which will affect the arrangements for internal audit going forward.
- 2 The new Public Sector Internal Audit Standards have been developed from the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). A link to access a copy of the full standards is attached at the end of this report (see background papers). The standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They have been revised to take account of comments received during consultation process with relevant stake holders. The standards reaffirm the importance of robust, independent and objective internal audit arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.

Purpose of the new standard

- 3 The new standards have been developed to provide coherent and consistent standards for internal audit across the UK public sector.
- 4 The new standards replace the existing standards in local government, including the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Internal Audit in Local Government. The standards apply across the UK public sector and have been adopted by CIPFA, HM Treasury and Department of Health.

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Objectives

5. The new standards have four key objectives as follows:
 - To define the nature of internal auditing within the UK public sector
 - To set basic principles for carrying out internal audit in the UK public sector
 - To Establish a framework for providing internal audit service which adds value to the organisation, leading to improved organisational processes and openness
 - To establish the basis for the evaluation of internal audit performance and to drive improvement planning

Implications of the new standards

6. **Internal Audit Charter** – The new standards does not require an Internal Audit Service to have an Audit Strategy. However, it requires a formal Audit Charter which must formally define the purpose, authority and responsibility of the internal audit activity. The Council’s internal audit team already has a charter, however, this will have to be revised to ensure full compliance with the new standards.
7. **Quality Assurance** – The new standards requires the quality of the service to be rigorously checked under a quality assurance improvement programme which requires on-going internal assessments of all aspects of internal audit activity, as well as external assessment every five years. This is intended to assess the efficiency and effectiveness of internal audit as well as to identify opportunities for improvements. There is a requirement for the chief audit executive to include a section on the quality assurance and improvement programme within the internal audit annual report. This will commence from the next internal audit annual report, in June 2014.
8. **Internal Assessment** – There will be an increase in the level of assessments which will involve monitoring the department’s activity and will be in line with the current quality review procedures. Additionally there will be periodic assessments carried out by other officers of the organisation, who will have sufficient knowledge of internal audit practices. The Council will need to determine how this will come about and who will be involved in the process going forward.
9. **External Assessments** – The assessments will need to be performed by qualified and independent assessors, or assessment teams that are external to the organisation. Peer reviews are not allowed. The process can be undertaken as a full external evaluation or a self-assessment with independent external validation, but it cannot be carried out on a rolling basis. This may involve the commissioning of a private accountancy firm or our current external auditors. It is not yet clear whether the process should start at the end of this financial year, or in the next five years.
10. **Effective Communication** – The standards specify a requirement for “effective communication” between the chief audit executive and the audit committee and there is specific reference to effective communication with the committee chair. In

this context “effective communication” refers to the engagement of the committee’s membership and of the chair in particular, in discussions with the chief audit executive about: the Council’s risk and assurance requirements; the level of assurance provided; issues of concern raised by audit work undertaken; and the implementation of agreed recommendations and enhanced assurance arising. This would involve frequent meetings between internal and the chair of the audit committee. The Initial meeting with the Chair of this committee has already established a protocol which is consistent with this requirement.

11. There would be a need to review the internal audit arrangements of this Council and to assess its preparedness to meet the new standards going forward. CIPFA has prepared guidance on implementing the new standards. Proposals need to be developed in consultation with senior management and the Chair of this committee going forward, in order to ensure that the Council is compliant with the new standard. The CIPFA guidance will be used to inform relevant proposals. This committee will be consulted and advised of further developments in due course.

Key Implications

Financial

- 12 None

Community Impact and Outcomes

- 13 An effective internal audit arrangement contributes towards the overall effectiveness of the council in providing quality services and good value for money for the local community..

Legal, Human Rights etc.

- 14 None

Resource (non-financial)

- 15 None

Value For Money

- 16 A robust internal audit arrangement will improve the assurance process and enhance the Council’s ability to minimise waste and inefficiencies whilst maximising value for money.

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	

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Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

SUSTAINABILITY CHECKLIST

Not applicable

CONCLUSIONS

- 17 The report updates Members of changes on the mandatory elements of the requirements of the new public sector internal audit standards which came into effect on 1 April 2013. Members are required to note the report. Proposals for complying with the new standards will be brought to this committee in due course.

RISK ASSESSMENT STATEMENT

- 18 The Council will need to ensure that its internal audit arrangements complies with the new standards within a reasonable timescale, to mitigate the risk of poor external assessments and to maximise the opportunities presented for an effective internal audit arrangement going forward. As a first step, obtaining the CIPFA guidance and using it as a basis for consultation and developing proposals will mitigate the risk of non-compliance.

Appendices

None

New Public Sector Internal Audit Standards Link:

Background Papers

<http://www.cipfa.org/-/media/files/Publications/Standards/Public%20sector%20Internal%20Audit%20Standards.pdf> [copy and paste link on to Google]

Contact Officer(s):

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Dr. Pav Ramewal
Chief Executive Designate

Public Sector Internal Audit Standards

Applying the IIA International Standards to
the UK Public Sector

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Issued by the Relevant Internal Audit Standard Setters:



Llywodraeth Cymru
Welsh Government

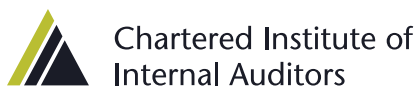


HM TREASURY



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 7

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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.

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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.

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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.

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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).

AUDIT COMMITTEE – 11 JUNE 2013

ANNUAL SELF ASSESSMENT REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT SERVICE 2012/13

Report of the: Chief Executive Designate

Status: For Consideration

This report supports the Key Aim of Effective Management of Council Resources

Portfolio Holder Cllr. Ramsay

Head of Service Group Manager, Financial Services – Adrian Rowbotham

Recommendation: It be RESOLVED that the Annual Self Assessment Review of the Effectiveness of Internal Audit Service 2012/13 be approved.

Introduction

- 1 This report deals with the outcome of the annual self-assessment of the Council's internal audit function. It is the first report of its kind to the Audit Committee. The Audit Committee is required to review the self-assessment of the effectiveness of internal audit as part of its terms of reference remit.

Background

- 2 Regulation 6.3 of the Accounts and Audit Regulations 2011 requires the Council to carry out an annual review of the effectiveness of its Internal Audit function. The regulation does not stipulate a prescriptive process by which the review may be undertaken, except that the review should be carried out in accordance with "Proper Practices" as defined by relevant professional bodies. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued good practice guidance in 2006 to assist Councils in carrying out the required review. The process involves the use of a self-assessment toolkit to carry out the review. This review was therefore conducted using the CIPFA guidance. Following the initial assessment, the outcome was sent to Management Team on 29 May 2013 for their consideration and approval. The outcome of the review will also feed into the Annual Governance Statement process which will also be reported at the September meeting of the Audit Committee.

Results of the self-assessment of internal audit

- 3 The result of the self assessment and any areas identified for further development is attached as an Appendix to this report. The process involved the completion of the CIPFA self-assessment template by the Internal Audit Manager which addresses the arrangements, practices and achievements of the Internal Audit

Agenda Item 8

function during the year. Subsequently the completed self-assessment was sent for consideration by Management Team on Wednesday 29 May 2013. The result of the review process indicates that the Council's Internal Audit arrangements substantially meet the CIPFA Code requirements. Thus indicating that no significant failings or omissions were identified within the scope of the review. Areas for further development have been identified. These will be addressed during the course of the year.

- 4 The Audit Manager's opinion therefore is that the Council's arrangements in place for Internal Audit in 2012/13 were *effective*. However some aspects of the service were identified which would benefit from further development. These are separately identified under the column headed "Areas for Further Development". Progress on these aspects would be reported to this committee in due course.

Key Implications

Financial

- 5 This report has no financial implications.

Community Impact and outcomes

- 6 Not applicable

Legal, Human Rights etc.

- 7 This report has no additional legal implications.

Resource (non-financial)

- 8 Not applicable

Value for Money and Asset Management

- 9 A robust internal audit function enables the Council's external auditors to place reliance on the work of internal audit, thus limiting the amount of external audit days that will be charged to the Council.

Equality

- 10

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

Sustainability Checklist

11 Not applicable.

Conclusions

12 The outcome of the review indicates that the CIPFA code requirements were substantially met. No significant concerns were identified. Areas for further development have been identified for action going forward.

Risk Assessment Statement

13 The review of the effectiveness of the internal audit function is a regulatory requirement designed to ensure that the service is effective in carrying out its statutory duties aimed at strengthening internal control, risk management and governance processes within the Council. The outcome of the review indicates that the arrangements are effective in meeting good practice requirements and therefore complies with regulatory requirements. Areas for further development have been identified and would be addressed during the course of the year.

Appendices

Appendix A – Completed Self-Assessment Template of Internal Audit

Background Papers:

Accounts and Audit Regulations 2011

CIPFA Code of Practice for Internal Audit in Local Government (2006)

Contact Officer(s):

Bami Cole Ext. 7236

Pav Ramewal
Chief Executive Designate

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AUDIT, RISK AND ANTI-FRAUD TEAM – SEVENOAKS DISTRICT COUNCIL

CIPFA Code of Practice – Standards

Self Assessment Review of the Internal Audit Service 2012/13 [May 2013]

2006 Code Standard	Evidence of Achievement	Areas for further development
<p>1. Scope of internal audit</p> <ul style="list-style-type: none"> • Terms of reference • Scope • Responsibilities in respect of other organisations • Fraud and corruption 	<p>New joint Audit Strategy and Charter reflecting the CIPFA Code of Practice requirements were approved by the P&G Committee in Nov 2010.</p> <p>Scope of audit work takes into account risk management processes and wider internal control. Audit Plan and Resource levels were reviewed and commented on in report to the Performance & Governance Committee on 17 April 2013.</p> <p>There is a shared service arrangement with Dartford Borough Council for the management of the internal audit function. This was agreed by the P&G committee in June 2010. The team therefore provides a full internal audit service for both Councils.</p> <p>The joint Audit, Risk and Anti-Fraud incorporate Internal Audit, Risk Management and the Anti-Fraud Services of both Councils. This includes both corporate fraud and benefits fraud. The joint internal audit team serving both Councils have seven staff members equivalent to 5.8 FTE. The benefits fraud investigations team has 5 staff, two of whom work part time.</p>	<p>An Audit Strategy is no longer a requirement in the new Audit Standard. This has now been replaced by a requirement for an Audit Charter. The Audit Charter will require updating to reflect new Internal Audit Standards. This will be done in time for the September meeting of the Audit Committee.</p>
<p>2. Independence</p> <ul style="list-style-type: none"> • Organisational independence • Status of head of internal audit 	<p>Internal Audit work is conducted in accordance with CIPFA standards. The team enjoys professional independence in its work. The Audit Manager had direct access to those that are charged with governance through the Performance & Governance Committee, now replaced by a new Audit</p>	<p>Opportunity to review Job Description, requirements and status of the Audit Manager role through a job evaluation process going forward.</p>

2006 Code Standard	Evidence of Achievement	Areas for further development
<ul style="list-style-type: none"> • Independence of individual internal audit • Independence of internal audit contractors • Declaration of interest 	<p>Committee – (see new Audit Committee Terms of Reference). Reports were made in own name to management and previously to Performance & Governance Committee. But will now be made to the new Audit Committee which will take over responsibility for Internal Audit. No conflict of interests between operational responsibilities and audit has been found. Rotation of audit work within the team is the norm. Contractor IT firm or Audit Temps do not have any other role within the authority where applicable. Auditors are required to complete an annual declaration of interests form.</p>	<p>Ensure that all audit staff complete their 2013/14 declarations.</p>
<p>3. Ethics:</p> <ul style="list-style-type: none"> • Integrity • Objectivity • Competence • Confidentiality 	<p>Staff appraisal system considers these issues. No significant points have been identified. Staff have been made aware of ethics requirements. Guidance has been circulated. Also qualified staff are subjected to professional ethics of the relevant professional body (Institute of Internal Auditors -IIA and Association of Accounting Technicians -AAT). All staff has their developmental needs assessed during yearly appraisal and relevant individual training needs identified and delivered during the year.</p>	<p>Staff without relevant professional membership are given the opportunity to obtain relevant professional qualifications, and or are subjected to appropriate level of supervision. On going training will be delivered as necessary to maintain the required level of competence within the team.</p>
<p>4. New Audit Committee now in place.</p> <ul style="list-style-type: none"> • Purpose of the Audit Committee • Internal Audit's relationship with the Performance & Governance Committee 	<p>The new Audit Committee has responsibility for audit matters. The Audit Manager has had an initial meeting with the Chair of the committee and has agreed protocols for working together going forward. This includes regular monthly meetings to start with.</p> <p>Other members of the committee can request a meeting with the Audit Manager if they have a concern, or if they require further information on any relevant matters.</p> <p>The audit manager is required to send regular reports to and attend meetings of the Audit Committee as was the case with</p>	<p>Opportunity to work with and develop constructive relationship with the newly formed Audit committee.</p> <p>The Audit Manager will deliver a presentation at the first meeting of the Committee on 11 June 2013, which will cover the key aspects of an audit committee and relevant aspects of the new Auditing Standards for Internal Audit within the public sector.</p>

2006 Code Standard	Evidence of Achievement	Areas for further development
	the Performance and Governance Committee.	
<p>5. Relationships</p> <ul style="list-style-type: none"> • With elected Members • With management • With other internal auditors • With external auditors • With other regulators and inspectors 	<p>The relationship with Members is a key aspect of internal audit work and that of a “critical friend” The newly created Audit Committee is solely dedicated towards fulfilling the terms of reference of an Audit Committee. The audit manager has had an initial meeting with the Chair and has established a positive rapport at their first meeting.</p> <p>Managers are consulted on the audit plan and on the scope of each audit by way of an audit brief. The audit plan takes account of the key risks which have been identified by management. Customer satisfaction surveys are sent to managers after every audit review, for their views and comments. (See end of year report for a summary of the outcome of the customer satisfaction surveys). The Audit Manager attends fortnightly finance managers team meetings and contributes towards the overall management of the department.</p> <p>The Audit Manager has meet with the new External Auditors and have agreed a communications protocol aimed at working constructively together going forward. The Internal Audit Team is part of the Kent Audit Group Network, and shares a common website where common practices and ideas are shared. Also the Audit Manager is a member of the Chartered Institute of Internal Auditors (IIA), Heads of Internal Audit Forum, and also subscribes to CIPFA “audit viewpoint” and CIPFA benchmarking Club for Internal Audit. The team works closely with the National Fraud Initiative to identify and investigate fraud or suspected fraud.</p> <p>Good working relations have been established with external</p>	<p>Internal Audit will continue to work with management within the new structure to ensure effective delivery of the assurance requirements going forward.</p> <p>Opportunity to use the CIPFA Benchmarking club data to identify any areas for further development within the audit service and the basis for delivering greater value for the Council going forward.</p>

2006 Code Standard	Evidence of Achievement	Areas for further development
	<p>audit, including consultation on planning and sharing of review outcomes. This will be continued under new Auditor arrangements with the Grant Thornton.</p> <p>Sharing of information is undertaken with other internal review agencies. There is liaison with external regulators and inspectors where appropriate.</p> <p>.</p>	
6. Staffing, training and development	<p>The skills and competencies required of each post have been determined. (Identified in Job descriptions). The team's individual training and development needs were assessed at the last annual appraisal in March 2013 and where appropriate training and development needs have been identified and agreed.</p> <p>Professional staff are required to complete Continuing Professional Development. Training plan is linked to Appraisal process.</p>	<p>Skills assessment identified some skills gap which needs addressing in order to make the team fully effective.</p> <p>In addition to identified skills gap some staff will also receive support to pursue professional training leading to professional qualifications and membership of a recognised professional body.</p>
7. Audit Strategy and Planning	<p>The Audit Strategy was approved by the P&GC in November 2010. (However, in view of the new auditing standards, it is not proposed to revise these going forward.)</p> <p>The risk-based Audit Plan was prepared in accordance with existing strategy, and approved by the Performance and Governance Committee on 27th April h 2013 (See committee minutes).</p> <p>Available resources were reconciled with the resource needed to deliver an appropriate level of assurance for the Council in 2013/14.</p>	<p>A new Audit Charter will be produced to take account of new requirements for the Public Sector Internal Audit Standards. The new charter will be sent to the Audit Committee meeting in September 2013 for endorsement.</p>

2006 Code Standard	Evidence of Achievement	Areas for further development
<p>8. Undertaking Audit Work</p> <ul style="list-style-type: none"> • Planning • Approach • Recording and Assignments 	<p>An audit brief is prepared identifying the objectives, scope and approach of each audit review, for agreement with management prior to commencing each review.</p> <p>A risk-based approach is used both in audit planning and delivery. We now give two audit opinions for each review. One for Framework and the second for Implementation. Thus giving a view on the overall effectiveness of the system under review.</p> <p>During an audit review, issues are discussed with management as they arise, and formal feedback is given at the end of the visit, prior to completing the report.</p> <p>Standards of working papers are specified and use as part of the review process, both for testing, assessing, evaluating and conclusions. The opinion process is based on guidelines issued the Audit Manager and agreed with management. All audit assignments are signed off by the Audit, Risk and Anti-Fraud Manager prior to conclusion, (See file review forms on audit files).</p> <p>Adequate working papers supporting conclusions drawn and recommendations made are maintained and retained in accordance with defined policy and in accordance with our ISO standards..</p> <p>Reports are issued to appropriate managers in accordance with defined policy. A follow up of recommendations are carried out to check implementation of recommendations and reported to the Audit Committee (previously the Performance and Governance Committee).</p> <p>The joint Audit team is ISO 9001 accredited and was last</p>	<p>A team development day was held on 17 May 2013 and new improved working papers were discussed and agreed to be implemented from June 2013.</p>

2006 Code Standard	Evidence of Achievement	Areas for further development
	reviewed and assessed in July 2013. There were no non-conformances.	
<p>9. Due professional care</p> <ul style="list-style-type: none"> • Responsibilities of the individual auditor • Responsibilities of the Head of Internal Audit 	<p>All internal auditors are aware of their individual responsibilities for due professional care. Where appropriate additional training is identified and offered.</p> <p>Arrangements are in place to monitor this:</p> <ul style="list-style-type: none"> • Audit Manager reviews all audit files and reports. • Annual Appraisal and training needs are identified and delivered. <p>Work is assigned so as to avoid potential conflicts of interest. The Audit Manager produces an annual report with an overall opinion on the system of internal control within the Council. The previous report was considered by the P&G Committee which performed the role of an Audit Committee. From June 2013 the new audit Committee will perform this role.</p>	<p>See 3, 6 and 8 above.</p> <p>Review the implementation of the new Public Sector Internal Audit Standards and any relevant professional guidance or practice notes issued by CIPFA</p>
<p>10. Reporting</p> <ul style="list-style-type: none"> • Reporting on audit work • Annual reporting 	<p>Audit reports now give two opinions and is based on risks and controls, using approved methodology.</p> <p>Scope of audit is set out in report.</p> <p>Recommendations are prioritised according to risk. Field-work outcomes are discussed with management and action plans agreed in response to recommendations made.</p> <p>Reports are issued to appropriate managers.</p> <p>Where necessary, issues are referred to the risk manager.</p> <p>Assurances are sought from managers on delivery of agreed actions, and appropriate follow-up actions carried out to assess the effectiveness of recommendations.</p> <p>An escalation procedure has been defined which may go as</p>	<p>Staff could benefit from a technical training workshop to develop more effective competences in implementing the new approach going forward. This will be done within the next two weeks.</p>

2006 Code Standard	Evidence of Achievement	Areas for further development
	<p>far as the Audit Committee and is used as appropriate (see ToR of Audit Committee)</p> <p>Where necessary, the opinion is revised in the light of the delivery of agreed actions.</p> <p>The IA annual report to support the Annual Governance Statement for 2012/13 will be presented to the Performance & Governance Committee on 11th June 2013.</p> <p>The report will include the overall opinion on the control environment and any qualifications to that opinion. The work on which the opinion is based will be set out in the report, including details of all internal audit reviews and the individual opinions, including achievements of PIs and relevant targets.</p> <p>The report will highlight significant issues if appropriate.</p> <p>Interim reports were submitted to the Performance & Governance Committee every quarter advising of how the opinion is developing. Going forward this will now be reported to the Audit Committee.</p>	<p>Previous reports to the Performance and Governance Committee will now be sent to the new Audit Committee from June 2013.</p>

2006 Code Standard	Evidence of Achievement	Areas for further development
<p>11. Performance, quality and effectiveness</p> <ul style="list-style-type: none"> • Principles of performance, quality and effectiveness • Quality assurance of audit work • Performance and effectiveness of the internal audit service 	<p>Policies and procedures are defined in the Audit Strategy and Charter. Audits are assigned according to the skills mix required and so that there is adequate supervision. Performance measures are defined and Internal quality reviews are undertaken by the Principal Auditor and Audit Manager risk and Anti-Fraud Manager for all audit work. (See file review forms).</p> <p>The internal Audit Team is ISO9001 accredited and organises its working procedures accordingly. The team also work in accordance with CIPFA Standards.</p> <p>Client satisfaction surveys are issued with each final report and are summarised in the IA annual report (see summary of outcomes on Annual Internal Audit report for 2013).</p> <p>An annual assessment of the work of internal audit is undertaken by the external auditor.</p> <p>The team has struggled to complete the annual audit plan for 2012/13. Key issues contributing to that are as follows:</p> <p>A higher proportion of unplanned work</p> <p>Technical skills gap for some staff leading to over runs and re-working.</p>	<p>The shared services arrangement with Dartford offers an opportunity to align good practice from both Councils and to develop a common integrated approach which would be beneficial to both Councils and staff.</p> <p>The new Public Sector Internal Auditing Standards has new requirements which will be implemented during the course of the year. To ensure full compliance, we will purchase the practice notes published by CIPFA and use it for staff development or changes in process or procedures where appropriate.</p> <p>A higher proportion of contingencies for 2013/14</p> <p><u>NOTE:</u></p> <p>Some skills gap still exists within the team, given the skills necessary to meet the requirements of service transformation. This has had some impact on overall performance and effectiveness. But this is recognised and being addressed. A staff development day was held on 17 May 2013 and remedial plan agreed to be implemented going forward.</p>

2006 Code Standard	Evidence of Achievement	Areas for further development

CIPFA Code of Practice – Characteristics of Effectiveness

Characteristic of 'effectiveness'	Evidence of achievement	Areas for further development
a) Understand its position in respect to the organisation's other sources of assurance and plan its work accordingly	The Audit Team, identifies other sources of assurance (for e.g. external audit and regulator's reports; Directors Assurance Statement; the AGS and risk management processes, and takes these into account when preparing the internal audit plan or preparing the work plan for audit reviews). [No adverse comments reported on IA	Recent changes within the organisation would need to be reflected within the AGS process in 2013 and the status of other sources of assurance will need to be re-evaluated.

Characteristic of 'effectiveness'	Evidence of achievement	Areas for further development
	arrangements by external audit]	
Understand the whole organisation, its needs and objectives.	<p>The audit plan demonstrates how audit work will provide assurance in relation to the authority's objectives and is based on an in-depth knowledge of the organisations key priorities.</p> <p>Individual audit assignments identify risks to the achievement of relevant objectives.</p>	<p>The shared working agreement provides an opportunity to develop the skills and competencies of the available pool of auditors, thus providing greater resilience and synergy which would contribute to more effective performance towards overall organisational objectives.</p> <p>Given recent organisational changes, greater engagement with management would be necessary in order to ensure a more seamless process.</p>
b) Be seen as a catalyst for change at the heart of the organisation.	<p>The Audit, Risk and Anti-Fraud Manager leads on co-ordinating the Council's risk management framework and chairs the Council's officers risk group. Other members of the team participate in Council wide groups, such as the Governance Review group, Staff Consultation Committee and the co-ordination of the Annual Governance process.</p> <p>The team has played a key role in service transformation through the shared services arrangements.</p>	Opportunity to engage with management at various levels and to advice and inform without compromising internal audit independence.
c) Add value and assist the organisation in achieving its objectives.	Demonstrated through individual audit assignments and also corporate work such as risk management, the AGS process, CPA/UoR (prior to disbandment), sustainable procurement	See above.

Characteristic of 'effectiveness'	Evidence of achievement	Areas for further development
	etc. Contributed towards the success of the organisation in obtaining IIP Gold Standard award for the Council.	
d) Be involved in service improvements and projects as they develop, working across internal and external boundaries to understand shared goals and individual obligations.	<p>Internal audit provides help and advice on request and supports specific projects identified in the plan and on an <i>ad hoc</i> basis, as already described above.</p> <p>Also supported management in developing shared services and Partnership working across Councils and initiatives for improvements in business processes (see above).</p> <p>Member of the IIA Heads of Internal Audit Group, Kent Audit Group, London Audit Group, London Contracts Audit Sub-Group, London Anti-Fraud Sub-Group, ALARM , Special Interest Group for enterprise risk management of the IRM and the CIPFA Bench Marking Club.</p>	Opportunity to engage more effectively with local management going forward.
e) Be innovative and challenging - shaping the values and standards of the organisation; providing internal inspection and validation and encouraging service managers to take ownership of processes, systems and policy.	Internal audit has taken an innovative approach to its reporting arrangements by focusing on risks and encouraging managers, through departmental management team meetings (DMTs) to develop their own responses and to identify, rather than merely waiting for audit recommendations to effect improvements. The aim of this is to encourage greater ownership of the control environment amongst managers. Internal audit will also look to review the process for internal service assessments, and make appropriate recommendations for improvements.	Opportunity to introduce innovation which will transform management self-awareness of internal controls and to introduce new approaches which will empower management to undertake self-assessments of their systems; and introduce improvement changes prior to the formal audit process.
f) Ensure the right resources are available – the skills mix, capacity, specialism and qualifications/experience requirements all change constantly.	In view of the shared services arrangements, there is now increased resilience; therefore we are now looking at developing in-house specialists and expertise for specialist work such as IT audits etc. There is already a good skills mix with members of the joint team coming from both Councils with different skills and experiences. This is further enhanced	See comments on 11 above. Skills gap assessments and relevant professional and technical training and development has been identified as is part of the process

Characteristic of 'effectiveness'	Evidence of achievement	Areas for further development
	by allowing staff to experience working at both Councils. However, there is ample room for further development on some key technical skills in order to improve the team's effectiveness.	set out above

Completed by the Audit, Risk and Anti-Fraud Manager on: May 2013

OPINION:

Following the above review of the effectiveness of the Audit and Efficiency Team, it is my opinion that the system of Internal Audit within Sevenoaks District Council is Effective, but would benefit from further development (It substantially complies with the CIPFA Code requirements). Areas for further development have been identified and will be implemented during the year.

Signed..... (Audit, Risk and Anti-Fraud Manager)

28th May 2013

Reviewed by Management Team on: 29th May 2013

Signed..... (Name.....)

Reviewed by the Audit Committee on: 11th June 2013

Signed..... (Chair of the Audit Committee).

AUDIT COMMITTEE – 11 JUNE 2013

INTERNAL AUDIT ANNUAL REPORT 2012/13

Report of the: Chief Executive Designate

Status: For Consideration

This report supports the Key Aim of Effective Management of Council Resources

Portfolio Holder Cllr. Ramsay

Head of Service Group Manager, Financial Services – Adrian Rowbotham

Recommendation: It be RESOLVED that Members;

- a) approve the work of the Internal Audit Team for 2012/13; and
 - b) support the Audit Manager’s Annual Assurance opinion that the Council had effective internal controls and governance arrangements in place for delivering its objectives and the management of its business risks.
-

Introduction

- 1 This report sets out the achievements of the Internal Audit team in delivering the assurance requirements for the period April 2012 to March 2013. This is the first report of its kind to the new Audit Committee and is in compliance with the committee’s terms of reference remind, to review and support the work of Internal Audit in delivering the assurance requirement for the Council.
- 2 The report is prepared in compliance with the Accounts and Audit Regulations 2011, and professional guidance issued by CIPFA. The report also took account of the outcome of the review of the effectiveness of the internal audit function which is attached as a separate agenda item for this meeting. Members may note that this report also supports the Council’s Annual Governance Statement (AGS) which will be taken to the next meeting of the committee with the Council’s Financial Statements in September 2013.

Summary of Issues Raised Within the Report

- 3 Details of the activities of the team during the year 2012/13 are attached as an Appendix to this report. Annex 1 to the Appendix sets out details of the work done in completing the annual internal audit plan for 2012/13 and outcome of each review. Annex 2 details summaries of reports issued since the last meeting of this committee.
- 4 In 2012/13 the team completed 22 reviews. This is equivalent to 95.65% of the revised internal audit plan. The original plan consisted of 25 reviews. This was later revised to 23 reviews and Members agreed at the meeting in January 2013

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to defer two reviews, for operational reasons. One of the deferred reviews was taken forward to the annual audit plan for 2013/14. The other was no longer necessary for assurance purposes and was dropped from the plan. Paragraph 35 of the Appendix sets out the summary of the team's performance indicators for 2012/13.

- 5 Based on the work completed in 2012/13 and other sources of assurance available to the team, the Audit Manager's overall annual assurance opinion is that the Council's arrangements for internal control, risk management governance and anti-fraud during the period is "effective" (see paragraph 4.1 in the Appendix) for regulatory purposes. This opinion will be taken into consideration during the preparation of the Annual Governance Statement which will go to the September meeting of the Audit Committee.
- 6 Details of the achievements of the team during the year is included in paragraphs 5 to 14 of the Appendix. Performance data outturn figures are set out on paragraphs 26 – 29 and, 35 -36 of the Appendix.
- 7 In summary, the overall impact of the report is that the team has performed well within its available resources and has met the objective of providing an adequate and effective internal audit and control framework for the Council during the year.

Audit Partnership with Dartford Borough Council

- 8 This is the third annual report following the shared services arrangement with Dartford Borough Council for the provision of a joint internal audit service. The audit service is based at Dartford Council and has operated well during the year. A joint Audit Charter and Audit Strategy were approved by the Performance and Governance Committee in November 2011. These will be reviewed to take account of the new Auditing Standards which came into effect in April 2013. A presentation on the new standards will be delivered at as part of the agenda for this meeting.

Key Implications

Financial

- 9 This report has no financial implications.

Community Impact and outcomes

- 10 An effective internal audit function provides assurance that the Council has an adequate control environment in place, which is essential for the delivery of services and good value for money.

Legal, Human Rights etc.

- 11 This report has no additional legal implications

Resource (non-financial)

12 Not applicable.

Value for Money and Asset Management

13 A robust internal audit function enables the Council’s external auditors to place reliance on the work of internal audit, thus limiting the amount of external audit days that will be charged to the Council.

Equality

14

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

Sustainability Checklist

15 Not applicable.

Conclusions

16 The report sets out the achievements of the Internal Audit Team for the period 2012/013, and includes that the Council had “effective” internal control, risk management framework, governance and Anti-Fraud arrangements in place during the period, based on the work completed by Internal Audit during the year and other available sources of assurance. This Committee is requested to approve the report and support the assurance opinion for the year.

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Risk Assessment Statement

- 17 The Council is required to comply with the requirements of the Accounts and Audit Regulations 2011, regarding its arrangements to ensure it has sound systems of internal control, governance and risk management processes in place. This report indicates that the Council has adequate and effective arrangements in place which meets relevant statutory and regulatory requirements.

Appendices

Appendix A – Internal Audit Annual Report 2012/13

Appendix B – Internal Audit Annual Plan 2013/14

Background Papers

Accounts and Audit Regulations 2011

CIPFA Code of Practice for Internal Audit in Local Government (2006)

Annual Internal Audit Plan 2012/13

Contact Officer(s):

Bami Cole Ext. No. 7236

Dr. Pav Ramewal
Chief Executive Designate

Internal Audit Annual Report

2012/13



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

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.

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.

**SEVENOAKS DISTRICT COUNCIL
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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AUDIT OPINIONS - Definitions

Good	<i>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.</i>
Satisfactory	<i>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.</i>
Adequate	<i>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.</i>
Unsatisfactory	<i>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.</i>
Unacceptable	<i>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.</i>

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	To give assurance on: <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	To give assurance regarding: <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	To give assurance regarding: <ul style="list-style-type: none"> the effectiveness of the arrangements in place for implementation of Section 106 agreements.
15. Annual Governance Statement	To give assurance regarding: 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.
16. Review of Information Management Council-wide	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.
17. Review of IT	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.
18. Dunbrik Depot	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

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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

AUDIT COMMITTEE – 11 JUNE 2013

RISK MANAGEMENT UPDATE

Report of the: Chief Executive Designate

Status: For Consideration

This report supports the Key Aim of Corporate Performance Plan “Effective Management of Council Resources”

Portfolio Holder Cllr. Ramsay

Head of Service Group Manager, Financial Services – Adrian Rowbotham.

Recommendation:

It be RESOLVED that Members note the contents of this report.

Introduction

- 1 This report sets out details of progress made in delivering the Council’s risk management strategy and framework; and informs Members of further development going forward. This is the first report on risk management to the Audit Committee.
- 2 The Council’s risk management strategy sets out that risk will be identified, assessed and managed both strategically and operationally. Strategic risks are those that may prevent the Council achieving its high level objectives, as set out in the Community Plan or the Council’s vision. Traditionally Strategic risks have been managed by the Directors and Heads of Service, with oversight and scrutiny being delivered by Committee. This would form part of the work of the Audit Committee and is included in the Committee’s terms of reference. The arrangements for strategic risks would need to be reviewed going forward in the light of recent organisational changes. Operational risks are those that may prevent or affect individual services meeting the objectives set out in their service plans. Operational risks are managed by Service Managers, supported by Heads of Service.
- 3 The Council also has processes in place to manage financial risks, project risks and health and safety risks that operate alongside the risk management framework. Financial risks are monitored by the Finance team and assessed and has traditionally been scrutinised by the Finance Advisory Group. This would now form part of the terms of reference of the Finance and Resources Advisory Committee. Project risks have traditionally been managed by the relevant Head of Service working closely with the project manager and are subjected to DMT and MT monitoring, based on the type of project. Health and Safety risk assessments

Agenda Item 10

are overseen and coordinated by the Council's Environmental Health team, with Service Managers responsible for undertaking regular risks assessments and taking action to mitigate those risks.

- 4 In addition to the above, the Council's officers risk group oversees and coordinates the entire process. It also facilitates the dissemination of best practice across the Council.

Current Update on Progress

- 5 During 2012 The Council undertook a review of its risk management framework with a view to streamlining and simplifying the process. A revised framework was developed and approved by Management Team and the Performance and Governance Committee. Training workshops were delivered to Managers to enable them to assess their operational risks. The process is now being fully implemented to take account of the service plans for 2013/14. A copy of the newly revised simplified framework is attached as Appendix A – Risk on a Page. The process is required to take account of both "Threats" and "Opportunities". Threats are uncertainties which may prevent the achievement of objectives; opportunities are uncertainties which may enhance the achievement of objectives. Appendix B contains a copy of the risk assessment template which managers are required to use for assessing their operational risks and for identifying relevant actions to address identified risks.
- 6 The strategic risk framework is still being finalised and should be ready for full implementation in June 2013. The process would involve executive level management in identifying the key risks in delivering the Council's Vision and Community Plan. Following which a senior management level officer will assume lead responsibility for each identified risk and would take the lead in identifying relevant mitigating actions and co-ordination of relevant actions to manage the identified risk relating to their respective remit.
- 7 In assessing strategic risk regard would be given to the Council's Vision and Community Plan, in order to ensure that any uncertainties impacting on their delivery are assessed, quantified and rated, prior to relevant actions being determined to manage the identified risks.
8. In addition to the above, it is proposed to review the Council's risk management strategy to reflect developments within the profession and recent changes within the Council. To this effect, it is proposed to review the existing strategy against the new ALARM (Association of Local Authority Risk Management) Risk Management toolkit which the Council has now acquired.
- 9 Members would be advised of progress at the September meeting of the committee when the full strategic risk register for the Council would be available for Members consideration.

Key Implications

Financial

- 10 None

Community Impact and Outcomes

- 11 A robust risk management process enhances the Council’s ability to minimise waste and improve efficiency and to deliver better services and outcomes for the community.

Legal, Human Rights etc.

- 12 None

Resource (non-financial)

- 13 None

Value For Money

- 14 A robust risk management process will enhance the Council’s ability to minimise waste and inefficiencies whilst maximising value for money.

Equality

- 15

Consideration of impacts under the Public Sector Equality Duty:		
Question	Answer	Explanation / Evidence
a. Does the decision being made or recommended through this paper have potential to disadvantage or discriminate against different groups in the community?	No	
b. Does the decision being made or recommended through this paper have the potential to promote equality of opportunity?	No	
c. What steps can be taken to mitigate, reduce, avoid or minimise the impacts identified above?		

Sustainability Checklist

- 16 Not applicable.

Conclusions

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- 17 The report updates Members on the Council's risk management process and plans for delivering the Council's risk management strategy in 2013/14. Members are requested to note the report.

RISK ASSESSMENT STATEMENT

- 18 A robust risk management process enhances the Council's ability to minimise waste and improve efficiency and to deliver better services and outcomes for the community. The new risk management framework will enhance the Council's ability to manage risk more effectively.

Appendices

Appendix A – Risk on a Page

Appendix B - Risk Assessment Template

Background Papers:

SDC Management Risk Strategy

Contact Officer(s):

Bami Cole, Audit, Risk & Anti-Fraud Manager.
Phone: 01732-227236

Dr. Pav Ramewal
Chief Executive Designate

Risk-on-a-page!

PROCESS OVERVIEW																																														
	<ul style="list-style-type: none"> • Identify key Strategic or Service objectives and priorities. • Manage threats that may hinder delivery of priorities. • Maximise opportunities that will help to deliver them. • Monitor progress and impact of actions • Process is a continuous cycle. 																																													
1. Identify Key Objectives and Priorities																																														
<ul style="list-style-type: none"> • What could go wrong? • Ensure risks are structured • What type of risk is it? • What category is it? 	<ul style="list-style-type: none"> • Use available sources/documents, e.g. corporate plan, service plan objectives to identify priorities etc. • E.g., “If we do not review and manage our budget, then there is a risk that we will overspend.” • Corporate, operational, service, project or partnership? • Financial, political, economic, reputation, customer/citizen, social, technological, performance, legislative, regulatory, environmental, competitive, partnership. 																																													
2. Assess and Quantify Threats and Opportunities																																														
<ul style="list-style-type: none"> • How likely is it to happen? • What would the impact be? • Likelihood x Impact = Risk rating <p>Key: 1-6 = Low 6-12 = Medium 15-25 = High</p>	<table border="1"> <tr> <td rowspan="5">Likelihood</td> <td>Very Likely (5)</td> <td>Low (5)</td> <td>Medium (10)</td> <td>High (15)</td> <td>High (20)</td> <td>High (25)</td> </tr> <tr> <td>Likely (4)</td> <td>Low (4)</td> <td>Medium (8)</td> <td>Medium (12)</td> <td>High (16)</td> <td>High (20)</td> </tr> <tr> <td>Possible (3)</td> <td>Low (3)</td> <td>Medium (6)</td> <td>Medium (9)</td> <td>Medium (12)</td> <td>High (15)</td> </tr> <tr> <td>Unlikely (2)</td> <td>Low (2)</td> <td>Low (4)</td> <td>Low (6)</td> <td>Medium (8)</td> <td>Medium (10)</td> </tr> <tr> <td>Very Unlikely (1)</td> <td>Low (1)</td> <td>Low (2)</td> <td>Low (3)</td> <td>Low (4)</td> <td>Low (5)</td> </tr> <tr> <td></td> <td></td> <td>No impact (1)</td> <td>Minor (2)</td> <td>Significant (3)</td> <td>Serious (4)</td> <td>Breakdown of Service (5)</td> </tr> <tr> <td></td> <td></td> <td colspan="5">Impact</td> </tr> </table>	Likelihood	Very Likely (5)	Low (5)	Medium (10)	High (15)	High (20)	High (25)	Likely (4)	Low (4)	Medium (8)	Medium (12)	High (16)	High (20)	Possible (3)	Low (3)	Medium (6)	Medium (9)	Medium (12)	High (15)	Unlikely (2)	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)	Very Unlikely (1)	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)			No impact (1)	Minor (2)	Significant (3)	Serious (4)	Breakdown of Service (5)			Impact				
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Low	Content	12 - months	Tolerate	Treat, only if cost effective																																										
4. Monitor and Review																																														
<ul style="list-style-type: none"> • Are the controls effective? → • Has the risk changed? → • Is there something new? → 	<ul style="list-style-type: none"> • If Yes, no need for further immediate action. If No consider additional controls • If Yes, determine whether existing controls are appropriate or sufficient • If Yes, risk assess new aspects and re-rate risk levels 																																													

Operational Risk Assessment Scores									
	Likelihood	Impact	Total Scores						
1	Very Unlikely	No Impact	1-6	Low [L]					
2	Unlikely	Minor	6-12	Medium [M]					
3	Possible	Significant	15-25	High [H]					
4	Likely	Serious							
5	Very Likely	Breakdown of Service							

LINKS TO SERVICE PLAN									
Service Area									
Team									
Service Plan Objective x									
Strategic Theme									

RISK ASSESSMENT							Cross Cutting Risk		Refer to
Operational Risks	Likelihood	Impact	Total	Rating	Internal Control(s)	Controls OK?	Yes / No	Refer to	MT
1.1			0	L					
1.2			0	L					
1.3			0	L					
1.4			0	L					
1.5			0	L					

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RISK ACTION PLAN				
	Risk	Action	Responsible Officer	Target Date
1.1	No Actions Required	-	-	-
1.2	No Actions Required	-	-	-
1.3	No Actions Required	-	-	-
1.4	No Actions Required	-	-	-
1.5	No Actions Required	-	-	-

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Audit Committee 2013/14 – Work Plan

	11 June 2013	10 September 2013	14 January 2014	18 March 2014
Internal Audit (Irregularities to be reported confidentially as & when necessary)	Review of effectiveness of Internal Audit Internal Audit Annual Report	Internal Audit Quarter 1 report Annual Governance Statement	Q2 Report	Internal Audit Plan Q3 Progress Report
Risk Management	Risk Management Plan		Update	
Accounts and External Audit	External Audit - Annual Audit Plan	Statement of Accounts 2012/13	External Audit - Annual Audit Letter	
Other				

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