

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 This has now been replaced by a requirement for an Audit Charter.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>

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<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>

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	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>

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	<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>

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<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>

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	<p>reviewed and assessed in July 2013. There were no non-conformances.</p>	
<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>

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	<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>

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<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 outcome s 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 compete 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 tom 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.

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	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).