



INTERNAL AUDIT MANUAL

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1. FOREWORD

- 1.1 This Manual aims to provide practical guidance for the successful operation of an Internal Audit service at Surrey Heath Borough Council.

2. OBJECTIVES AND RESPONSIBILITIES OF INTERNAL AUDIT

- 2.1 The Accounts and Audit Regulations require the Council to *"maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control...."*. Audit responsibilities include:

- Providing independent **assurance** to the authority that risk management processes, control systems, accounting records and governance arrangements are in place and operating properly
- Providing **advice** regarding risk, internal control and governance arrangements
- Undertaking special investigations as necessary in particular identifying and assisting with minimising any possible fraud or irregular activity
- Testing of financial systems on behalf of external audit

- 2.2 Since 2011 collaboration has taken place between CIPFA and the Institute of Internal Auditors (IIA) to develop industry leading Standards that would be applicable to all sectors of the UK public sector. The revised Standards are referred to as the Public Sector Internal Audit Standards (PSIAS). The standard setters adopted the common set of PSIAS from April 2017, and are considered mandatory.

- 2.3 The Public Sector Internal Audit Standards 2017 defines internal audit as:

"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."

- 2.4 The Public Sector Internal Audit Standards set out the following standards for internal auditors, including:

- ❖ Demonstrating integrity
- ❖ Demonstrating competence and due professional care



- ❖ Acting objectively and free from undue influence thus maintaining independence
- ❖ Aligning with the Council's strategies, objectives, and risks including the Annual Plan and 5 Year medium term Strategy
- ❖ Appropriately positioned and adequately resourced
- ❖ Demonstrating quality and continuous improvement
- ❖ Communicating effectively
- ❖ Providing risk-based assurance
- ❖ Insightful, proactive, and future focused
- ❖ Promoting organisational improvement

Internal Audit should be familiar with these Standards and adopt them at all times in its day to day work. This Audit Manual follows the standards set out in the Code of Practice.

2.5 Internal Audit has also established an Internal Audit Charter. The Charter sets out the scope and responsibility of Internal Audit, and reporting lines. The Audit Charter is the mandate for the audit function, and is also the terms of reference for the service.

3. SCOPE OF INTERNAL AUDIT

3.1 The scope of Internal Audit includes the organisation's entire control environment and allows for unrestricted access to all records and assets deemed necessary by the auditors in the course of an audit. In addition Internal Audit should have unrestricted access to:-

- The Audit, Standards and Risk scrutiny committee
- Chief Executive
- Senior management team CMT
- the Council's Chief Finance Officer and Section 151 Officer
- the authority's Senior Information and Risk Officer (SIRO) and Monitoring Officer

3.2 The Council operates an anti-fraud and corruption policy. This should be followed in all cases of suspected fraud or other irregularity :-

“Internal audit has an important role to play in ensuring that management has effective systems in place to detect and prevent corrupt practices within an organisation. This is part of its normal role of supporting the Board's and Audit Committee's oversight of risk management, but it is not the job of internal audit



directly to detect or prevent corrupt practices. This is for senior management. Internal audit's role includes promoting anti-fraud and anti-bribery best practice, testing and monitoring systems and advising on change where it is needed."

4. STATUS OF INTERNAL AUDIT – INDEPENDENCE

4.1 Internal Audit sits under Legal & Democratic Services and reports directly to the Head of Legal.

4.2 To be effective, internal audit must be and be seen to be independent. To ensure this Internal Audit will operate within a framework that allows:

- Unrestricted access to all officers, members and those charged with governance
- Reporting in its own name
- Segregation from line operations

4.3 Every effort will be made to preserve objectivity by ensuring that all audit staff are free from any conflicts of interest and do not undertake any non-audit duties. At the discretion of the Senior Auditor audit staff may work on the following:

- Ad-hoc fraud or other irregularity work
- Consultancy and professional advice
- Working groups

4.4 As far as is practicable, Internal Audit should not participate in the day-to-day operation of any systems of internal financial control. Where internal audit staff have been consulted during system, policy or procedure development, they should be precluded from reviewing and making comments during routine or future audits wherever feasible.

4.5 The Council's Codes of Conduct require all staff to declare any interests and reminders are sent periodically.

5. ETHICS

5.1 The purpose of this section of the Manual is to set the minimum standards for the performance and conduct of all internal auditors. It applies to all staff responsible for delivering internal audit but does not supersede or replace the requirement on individuals to comply with ethical codes issued by professional institutes of which



they are members. The Senior Auditor leading the service must ensure that auditors are regularly reminded of their ethical responsibilities. There are four main principles that should be observed:

Integrity

- 5.2 All internal auditors should demonstrate integrity in all aspects of their work. At all times the integrity and conduct of each internal auditor must be above reproach. The relationship with colleagues, internal clients and external contacts should be one of honesty, truthfulness and fairness. This establishes an environment of trust and confidence that provides the basis for reliance on all activities carried out by individual auditors and the internal audit team.

Objectivity

- 5.3 Objectivity is a state of mind that has regard to all considerations relevant to the activity or process being examined without being unduly influenced by personal interest or the views of others. The internal audit team must be impartial in discharging all responsibilities; bias, prejudice or undue influence must not be allowed to limit or override objectivity.

Internal auditors must act objectively and be perceived as doing so. This can be demonstrated by:

- (a) Avoiding any conflict of interest arising either from professional or personal relationships or from pecuniary or other interests in an organisation or activity subject to audit.
- (b) Resisting undue influences that could restrict or modify the scope or conduct of the work or significantly affect the content or judgements in the internal audit report.

Objectivity is presumed to be impaired when individual auditors review any activity in which they have previously had operational responsibility. Auditors will not be assigned to work in areas where they have had an operational or other involvement, until the Senior Auditor determines that a suitable period has elapsed, but this has challenges in a small team.

Long-term responsibility for the audit of a particular aspect of an organisation can lead to over-familiarity and complacency that could influence objectivity; assignment of ongoing audit responsibilities will be rotated from time to time



within the internal audit team, where resources and service capacity enable this to happen.

Competence

- 5.4 Internal auditors should apply knowledge, skills and experience to their work, seeking additional advice and support where necessary to ensure work is carried out competently.

They should obtain sufficient knowledge of:

- (a) The organisation's aims objectives, risks and governance arrangements
- (b) The purpose, risks and issues of the service area
- (c) The scope of each audit assignment
- (d) Relevant legislation and other regulatory arrangements that relate to the audit.

Confidentiality

- 5.5 Internal auditors must safeguard the information they receive in carrying out their duties. Any information gained in the course of audit work should remain confidential, without limiting or preventing Internal Audit from reporting within the organisation as appropriate. There must not be any unauthorised disclosure of information unless there is a legal or professional requirement to do so. Inappropriate disclosure of information by internal auditors could be a disciplinary offence.
- 5.6 Confidential information gained in the course of audit duties should only be shared with bona fide recipients and must not be used to effect personal benefit. The Council's information security policies and any relevant legislation must be adhered to at all times, including any data protection regulations.
- 5.7 The Council's internal auditors have signed up to human resources confidentiality statement and should be mindful of this when accessing and processing staff records.

6. AUDIT COMMITTEE

Purpose of the Audit, Standards and Risk Committee



6.1 Independent Audit Committees are CIPFA's preferred model for local authorities. The Audit, Standards and Risk Committee performs this role at Surrey Heath.

6.2 The purpose of this committee is:

- to provide independent assurance as to the adequacy of the risk management framework and the associated control environment
- to provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment to oversee the financial reporting process
- to review the Annual Governance Statement, which will include the results of the annual review of the effectiveness of the system of internal audit

Terms of Reference can be found in the Council's Constitution.

Internal Audit's Relationship with the Audit Committee

6.3 The shared interests of the Committee and Internal Audit suggest that there needs to be an effective working relationship. That relationship has three elements:

- (a) The approval (but not direction) of, and monitoring of progress against, the internal audit strategy and plan
- (b) Using the results of Internal Audit's work to satisfy some of the Committee's objectives (and vice versa)
- (c) Aligning the operations of the Committee and Internal Audit, as far as possible, without compromising their individual responsibilities, to make best use of resources.

6.4 To facilitate the work of the Committee, the Senior Auditor will:

- (a) Attend its meetings, and contribute to the agenda
- (b) Contribute to the Work Programme of the committee.



- (c) Ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives (e.g. the audit strategy, annual plans, progress reports)
- (d) Report the outcomes of internal audit work, in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address.
- (e) Establish if anything arising from the work of the committee requires consideration of changes to the audit plan, and vice versa.
- (f) Present an annual internal audit report including an overall opinion on the control environment, the extent to which the audit plan has been achieved, and a summary of any unresolved issues.
- (g) Bring to the attention of Members any significant matters arising, or possible fraud and irregularity.

7. RELATIONSHIPS

Principles of Good Relationships

- 7.1 Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the audit function, its reputation and independence.
- 7.2 Internal Audit's plans and activities will co-ordinate with those of other parties to achieve the most effective audit coverage and to minimise duplication.

Relationships with Management

- 7.3 Management and staff at all levels in the organisation need complete confidence in the integrity, independence and capability of Internal Audit. The Senior Auditor will seek to maintain effective relationships between internal auditors and managers, and auditors will protect the confidentiality of information gained in the course of audit work (unless this would prevent Internal Audit meeting its reporting responsibilities to the wider organisation).
- 7.4 Co-operative relationships with management can enhance Internal Audit's ability to achieve its objectives, but must not detract from Internal Audit's responsibility for reporting control issues to those charged with governance. Audit work, and especially its timing, should be planned in conjunction with management to minimise abortive work and time unless, for example, this might be perceived as jeopardising the 'challenge' aspect of internal audit work, or where unannounced visits are necessary.



7.5 Management will be consulted on:

- The audit planning process.
- Approximate timing of proposed audits – subject to flexibility to deal with unplanned work and the need to complete work for external audit.
- Overall objectives of the audit (within the audit plan or unplanned work).

Relationships with External Auditors

7.6 Internal Audit is an independent assurance function within the organisation, whereas External Audit is responsible for giving an independent opinion on the organisation's financial statements and a conclusion on its arrangements for securing economy, efficiency and effectiveness in its use of resources. The relationship between Internal and External Audit needs to take account of these differing roles and responsibilities.

7.7 The aim of the relationship between internal and external auditors should be to achieve mutual recognition and respect, leading to a joint improvement in performance and to avoid duplication of work. It should be possible for internal and external auditors to rely on each other's work, subject to the limits determined by their responsibilities, enabling them to evaluate, review and only re-perform where necessary.

7.8 The Senior Auditor may need to meet on occasions with the nominated External Audit representative to consult on and co-ordinate their respective plans and, particularly, to discuss how work can be tailored to satisfy each party's responsibilities in areas of common interest. Such meetings are an opportunity to discuss matters of mutual interest and to help develop both parties' understanding of the organisation.

7.9 In any case of conflict with the external auditor, the Senior Auditor will consult with, or refer the matter to, the appropriate senior officer or the Audit committee. Internal Audit should agree a standard audit methodology and test programme for the key finance audits such as housing benefits, payroll, and IT work.

Relationships with other Regulators and Inspectors



- 7.10 The Senior Auditor will seek to establish a dialogue with any other agencies that may interact with the organisation, with a view to exchanging relevant information.
- 7.11 Assurance is an integral component of robust corporate governance across the organisation. The Council receives 'integrated assurance' from a number of sources including central government, external audit, regulators, and professional institutes. A combined level of assurance offers a more robust and comprehensive approach than reliance on a single source. Internal Audit complements this process by providing a high level independent assurance based on the audit assignments it undertakes.

Relationships with Elected Members

- 7.12 The Senior Auditor will establish and maintain good working relationships and channels of communication with Members. The Audit Charter describes how such relationships should operate.

8. AUDIT RESOURCES - STAFFING, TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Staffing Internal Audit

- 8.1 Internal Audit should be appropriately resourced to meet its objectives. It should have appropriate numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives and to comply with standards.
- 8.2 It is the responsibility of the Senior Auditor supported by the Head of Legal to ensure appropriate audit resources are in place to enable the Annual Audit Plan to be met. Staff resources need to be proportionate to the size of the organisation and affordable and meet the minimum professional standards.
- 8.3 Audit staff will maintain a log book of training undertaken each year, and should seek to identify any training and development needs. Audit staff will undergo all mandatory training provided by the Council as well as any additional development opportunities identified as part of the appraisal process.



- 8.4 Should it be necessary additional staff resources could be supplemented on a temporary basis to ensure that high risk systems and audits are undertaken. Under such circumstances the Council's Chief Executive and Chief Finance Officer would be consulted who would make the final decision.

9. AUDIT STRATEGY AND PLANNING

Audit Strategy

- 9.1 An Internal Audit Strategy is prepared every three years and is approved by Members. The purpose of this strategy is to provide an overview of how Internal Audit will support the Council's Corporate Objectives and requirements for the provision of an Internal Audit service in a way that will allow the service to:

- provide an opinion on the internal control environment to support the completion of the Annual Governance Statement;
- prepare audit plans that give suitable priority to the Council's objectives and key risks and concentrate resources on areas that have been identified as being the most vulnerable;
- agree actions with managers at the conclusion of each piece of audit work that will assist in maintaining internal control, ensure continuous service improvement and reduce risk;
- identify the audit resources required to deliver an audit service that is both affordable and meets required professional standards and
- provide regular reports, including action taken on recommendations to management and to Committee.

- 9.2 The Audit Strategy should have regard for both the objectives and Values of the Council as well as being flexible and adaptable in order to meet the changing needs of the business.

Annual Audit Plan

- 9.3 The Senior Auditor prepares an annual risk-based Internal Audit Plan designed to implement the audit strategy. In preparing the Plan, the Senior Auditor will take into account the adequacy and outcomes of the



organisation's risk management, performance management and other assurance processes. The Plan will also reflect previous findings/recommendations, outstanding issues, and local and national developments e.g. new legislation, systems, structures or key projects.

- 9.4 In order to prepare the Plan, there must be a clear understanding of the organisation's functions and the scale and breadth of potential audit areas. Consultation takes place with senior managers to ensure any issues of significant risk are incorporated. Senior management will be consulted annually on the contents of the Plan.
- 9.5 The Internal Audit Plan is prepared for a one-year period but is periodically reviewed to confirm its appropriateness. The Plan should outline the assignments to be carried out, their respective priorities and the estimated resources needed. The Plan differentiates between assurance and other ad hoc work and consultancy activities. Once the planned work has been determined, this is compared to resource availability. The Audit committee should approve, but not direct, the internal audit plan.
- 9.6 The Senior Auditor will consult senior management on the draft plan and revise if appropriate.
- 9.7 The Senior Auditor is responsible for the delivery of the Audit Plan. Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to the audit committee.

Individual audits

- 9.8 An audit terms of reference (TOR) will be prepared for each audit indicating time allocated, agreed objectives of the audit scope of the work to be carried out and potential main risks.
- 9.9 Any deviations from the audit terms of reference should be flagged with and agreed by the Senior Auditor. Scheduled and ad hoc unplanned audit work will be allocated to the team as appropriate.

10. UNDERTAKING AUDIT WORK - AUDIT PRINCIPLES

Audit Planning



- 10.1 For each audit a Terms of Reference is prepared and the overall objectives agreed with relevant managers.
- 10.2 The TOR should establish the objectives, scope and timing for the assignment and its resource and reporting requirements. However, the scope should not be so restrictive to prevent auditors carrying out testing and evaluation of additional areas of risk identified during the audit.

Audit Approach

- 10.3 Audit work should be undertaken using a risk-based audit approach. The workflow document below sets out the approach to be used. The purpose of a risk-based approach is:
 - To identify and provide assurance on the control over the Council's (or service) significant risks.
 - To prioritise audit work ensuring sufficient attention is given to significant risks.
 - To assist management in the identification of risks and evaluation of associated controls.
- 10.4 The risk based approach is documented in the standard audit working papers and is carried out for each audit assignment. The purpose of the service risk assessment is to enable the Audit team to identify the risks to the effective operation of the system under review. This enables auditors to identify what audit procedures are to be utilised in the audit.

AUDIT WORKFLOW
AUDIT PLANNING
1. Agree Audit Plan with CMT/ Members 2. Allocate planned work to auditors 3. Auditors allocate planned work over quarters
AUDIT COMMENCES



<ol style="list-style-type: none"> 1. Prepare Terms of Reference and discuss with Senior Auditor as necessary 2. Note plan objectives, time allocation and deadline 3. Review previous audit 4. Note outstanding recommendations 		
<p>RISK AND SERVICE OVERVIEW</p>		
<ol style="list-style-type: none"> 1. Agree a start date and staff availability with each service 2. Use existing risk registers, the audit risk template, CIPFA matrices and research to identify potential risks 3. Identify known key risks with service at start of audit 4. Update system documentation as necessary 		
<p>Identify projects and issues with significant risk attached e.g. new contracts, legislation, structures and processes, and planned IT developments</p>	<p>Can service be broken down into operational areas?</p>	
<p>↓</p>	<p>Yes ↓</p>	<p>No ↓</p>
<p>Review existing risk assessments/ Prepare risk assessment and test to support audit opinion</p>	<p>Break down service into operational areas e.g. within leisure – leisure centre, museums, green spaces etc. Review existing risk assessments/Complete separate operational risk assessments for each area and test to support audit opinion.</p>	<p>From the risk assessment identify potential tests – .i.e. to confirm compliance with controls and substantive to identify error, fraud etc. Discuss level of testing to support audit opinion, with lead auditor</p>



Discuss any immediate concerns with Senior Auditor e.g. suspected irregularities or major system weaknesses

Monitor time and deadlines – Discuss any potential overruns with lead auditor

DRAFT REPORT - AUDIT SUMMARY

1. Discuss findings with managers as soon as possible
2. Pass draft report/audit summary to lead auditor for review
3. Follow up review sheet, agree with lead auditor and issue draft
4. Agree final report and issue with Management Improvement Plan/Action Plan
5. Record recommendations so they can be monitored
6. Diarise follow up with service
7. Monitor outstanding recommendations and alert lead auditor where necessary
8. Ensure any high risks are brought to the attention of the Corporate Risk Management Group

Corporate Risk Management

- 10.5 The authority is concerned with the management of risks impacting on the achievement of corporate and service objectives. Effective risk management will also enhance service delivery, safeguard employees, protect assets, preserve and maintain effective stewardship of public funds and promote a favourable corporate image.
- 10.6 There is a strong link between Internal Audit and risk management. Internal Audit has to provide assurance to the organisation on the internal control systems that are controlling the risks to the organisation achieving its objectives. As Internal Audit resources are finite, Internal Audit work should be focused on the key risks and controls. The information from the organisation's risk management process is key to Internal Audit planning.
- 10.7 Internal Audit and risk management, as mechanisms for controlling risks that threaten the assets and objectives of the authority, form a complementary and valuable partnership. Internal Audit is well placed to provide the authority with assurance, advice, independent assessment and scrutiny over its use, management of resources, performance and risk management arrangements.
- 10.8 The Senior Auditor represents audit at corporate risk management meetings.
11. RECORDING AUDIT ASSIGNMENTS



- 11.1 A number of standard audit documents, templates and working papers have been developed and through the review process, ensure that standards are met.

Standard Audit Documentation/Audit Templates

- Terms of Reference – set out objectives, scope, timings and responsibilities.
- Risk and Service overviews – operational risk assessment – audit risk template used for mapping controls against risks and prioritising testing.
- Testing/working papers – should indicate the objective for each test, sample selection method, sample size, test undertaken, test findings and conclusion. Working papers must always be sufficiently complete and detailed to enable another auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached.
- Management Improvement Plan/Action Plan – record of recommendations and action agreed with management including implementation dates and name of responsible officer.
- Audit Review Sheet – Every completed audit is quality controlled by senior officer review to ensure the quality of audit work to support the level of assurance provided. All observations must be recorded and responded to on the review sheet. The senior officer review also ensures that audit findings can be supported by data and records and evidenced as necessary.

12. AUDIT ASSURANCE

- 12.1 On conclusion of each audit, an overall opinion and a level of assurance for the system under review is provided – a standard form of words for each level of assurance has been agreed and these should be inserted in all audit reports. Audit assignment opinions feed into the annual report as well as the Annual Governance Statement.

13. RETENTION OF AUDIT DOCUMENTATION



- 13.1 Internal Audit documentation should only be retained for as long as required, typically a 3-year period, whether held on paper or digitally, unless organisational policy and statutory requirements state they should be retained for longer e.g. contract documents/investigations. This is to help ensure records are made available for VAT purposes. At all times the organisation's document retention policy is to be followed as well as GDPR rules and regulations.
- 13.2 Most Internal Audit documentation is held electronically and should be filed according to the Council's protocols and Box security standards.
- 13.3 Access to Internal Audit documentation should be kept restricted and agreed with the Senior Auditor. Data should only be shared where there is a need to do so and agreement has been sought, and only in compliance with data sharing protocols and the council's IT Security policy.

14. AUDIT TECHNIQUES

- 14.1 Internal Audit processes may vary from guidance set out by CIPFA but should always conform to standards set out in the Code of Practice. Audit techniques have been documented within the PSIAS as well as guidance material set out on the IIA's website.
 - Systems Based Auditing
 - Statistical sampling – auditors should be aware of the various statistical sampling techniques and should agree the appropriate method of sampling with the audit team leader
 - Flowcharts – may be used to document processes or to supplement narrative notes
 - Audit programmes – set out details of the way an audit will be conducted with testing schedules
 - Computer Assisted Audit Techniques – IDEA / Excel – currently used to manipulate data electronically for sampling and audit testing purposes
 - Analytical Review – high level review of key statistical data

15. DUE PROFESSIONAL CARE

Principles of due professional care

- 15.1 Due professional care is:



- Working with competence and diligence – it does not imply infallibility
- Use of audit skills, knowledge and judgement based on appropriate experience, training (including CPD), ability, integrity and objectivity
- Respecting and understanding confidentiality.

Responsibilities of the auditor

15.2 Individual auditors are personally responsible for applying due professional care to their own work and conducting themselves appropriately. They should:

- (a) Be fair and not allow prejudice or bias to override objectivity
- (b) Declare any interest that could be perceived to be conflicting or could potentially lead to conflict
- (c) Not accept any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (in accordance with the Council's Code of Conduct)
- (d) Use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base their conclusions, professional judgements and recommendations
- (e) Be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest
- (f) Have sufficient knowledge to identify indicators that fraud or corruption may have been committed
- (g) Disclose all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to confidentiality requirements
- (h) Disclose any non-compliance with these standards
- (i) Not use information they obtain in the course of their duties for personal benefit or gain

The employee's Code of Conduct sets out the standards required of all staff.

15.3 The audit team regularly discuss audit work, review findings and remind staff about their responsibilities to ensure that due professional care is achieved and maintained.



Individual auditors must disclose any suspicions of fraud, corruption or improper conduct to the Senior Auditor immediately, who in turn will liaise with the Council's senior management team, the head of service and/or HR representatives as appropriate.

The Senior Auditor will make provision to avoid potential conflicts of interest and provide for the appropriate training in this area.

16. INTERNAL AUDIT REPORTING

Principles of reporting

- 16.1 The primary purpose of Internal Audit reporting is to communicate to management the key findings from every audit as well as information that provides an independent and objective opinion on the control environment and risk exposure and to prompt management to implement agreed actions.
- 16.2 The Senior Auditor has direct access to, and freedom to report in their own name and without fear or favour to, all officers and Members, particularly to those charged with governance.
- 16.3 The Senior Auditor determines the way in which Internal Audit will report and sets out the standards for reporting, including the format of reports, quality assurance within the internal audit service and the process for agreeing reports with the client. Reports should be accurate, clear, concise, balanced and constructive.

Reporting on Internal Audit Work

- 16.4 The aim of every internal audit report should be:
 - (a) To give an opinion on the risk and controls of the area under review, building up to the Senior Auditor's annual opinion on the control environment
 - (b) To prompt management to implement the agreed actions for change leading to improvement in the control environment and performance
 - (c) To provide a formal record of points arising from the audit and, where appropriate, of agreements reached with management, together with appropriate timescales.



Each report should include the objectives (scope and purpose) of the audit to help the client understand the extent, or limitations, of the assurance provided by the report.

- 16.5 Significant issues arising during the course of an audit should be discussed with management as soon as possible. Where possible summary reports should be issued incorporating the above but with minimal further information and narrative.
- 16.6 Before issuing the final report, the internal auditor should discuss the main findings with the service department to confirm the factual accuracy, to seek comments and to confirm the agreed management actions. A draft report is used for this purpose and an exit meeting held.

Recommendations

- 16.7 Audit recommendations should be prioritised according to risk. Recommendations are categorised according to the following risk profiles:
- **ESSENTIAL** - This category applies to recommendations to improve controls where a significant risk has been identified. Examples include weaknesses that may lead to:
 - A risk of possible fraud or financial loss
 - A risk of significant financial error, with potential to affect the annual audit opinion.
 - A risk of reputational damage to the Council
 - Material loss or theft of Council assets
 - **DESIRABLE** - This category applies to recommendations where the auditor believes the risk identified is not material to the Council, but where weaknesses have been identified which may put some of the system's objectives at risk.
 - **BEST PRACTICE** - This category applies to recommendations where implementation will improve controls but where the risk being reported on is not considered material to the Council.

The recommendations and the resultant Improvement Plans/Action Plans should be agreed prior to the issue of the final report. Any area of



disagreement between the auditor and management that cannot be resolved by discussion should be recorded in the Action Plan and the residual risk highlighted. Those weaknesses giving rise to significant risks that are not agreed should be brought to the attention of the Head of Service.

- 16.8 The Senior Auditor will determine the circulation of audit reports within the organisation, having due regard to their confidentiality and legislative requirements. It is standard practice to share all final audit reports in full with the senior management team.
- 16.9 Ideally the recipients of the audit report, i.e. those charged with agreeing management actions, should be determined when preparing the audit brief. However as the findings and recommendations are not known at that point, it is considered more appropriate to agree circulation at the end of an audit. Recommendations with a wider impact than the area under review are reported to the appropriate senior managers, management teams and if appropriate, to Members.
- 16.10 High level risks may need to be reflected in the Council's corporate risk register, and this will be discussed at risk management meetings.

Internal audit recommendations will be logged in full on the local database and /or AirTable in order for them to be periodically monitored.

17. FOLLOW-UP AUDITS AND REPORTING

- 17.1 Management has responsibility for ensuring that agreed actions are implemented. Internal Audit should obtain assurances that actions have been implemented, particularly those where risks are high.
- 17.2 Auditors should programme in follow up reviews according to level of risk and timescales agreed.
- 17.3 Overdue audit recommendations will be presented to senior management approximately every 6 to 9 months. Action should then be taken as appropriate following the CMT meeting.
- 17.4 Where follow-up action reveals changes that impact on the original Internal Audit opinion, the revised opinion should be reported to the appropriate level



of management. The findings of internal audits and follow-up reviews will inform the planning of future internal audit work.

18. ANNUAL REPORTING AND PRESENTATION OF AUDIT OPINION

18.1 The Senior Auditor must provide a written report to those charged with governance to support the Annual Governance Statement.

18.2 The Senior Auditor's annual report to the organisation:

- (a) Includes an opinion on the overall adequacy and effectiveness of the organisation's control environment usually provided by the Council's Section 151 officer
- (b) Discloses any qualifications to that opinion, together with the reasons for the qualification
- (c) Presents a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- (d) Draws attention to any issues that could affect the preparation of the Annual Governance Statement
- (e) Compares the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets (Via the review of the effectiveness of internal audit)
- (f) Comments on compliance with the Code and the PSIAS

19. PERFORMANCE, QUALITY AND EFFECTIVENESS

Principles of Performance, Quality and Effectiveness

19.1 Internal Audit has established policies and procedures to guide staff in performing their duties and comply with the Internal Audit Standards. The Audit Manual will be reviewed periodically and updated to reflect changes in working practices and standards. The updated Audit Manual will be presented to senior management and to Members for agreement.

19.2 Performance, quality and effectiveness of audit is assessed at two levels:

- (a) For each individual audit
- (b) For the internal audit service as a whole.



Quality Assurance of Audit Work

- 19.3 The Senior Auditor will ensure that audit work is allocated to staff with the appropriate skills, experience and competence.
- 19.4 The Senior Auditor will ensure that internal audit staff at all levels are appropriately supervised and work is reviewed throughout all audits to monitor progress, assess quality and coach staff. The extent of supervision will depend on the competence and experience of the individual auditor.
- 19.4b A range of quality measures have been introduced across the team to identify and evaluate quality and service delivery. These include the adoption of the Audit Charter which takes on the form of a mandate and terms of reference for the team, as well as an Audit Manual which details policies procedures and processes to guide the internal audit activity.

Performance and Effectiveness of the Internal Audit Service

- 19.5 Internal Audit has in place a performance management and quality assurance framework to demonstrate that the internal audit service is:
- (a) Meeting its aims and objectives – through review of service delivery plan and annual plan /service and personal targets and external audit review.

Targets to measure performance are developed in consultation with appropriate parties. The Senior Auditor measures monitors and reports appropriately on the progress against these targets.

An action plan to implement improvements is incorporated into service delivery plans and annual review approved by members.
 - (b) Compliant with the Public Sector Standards – Annual review with report to Members/ senior management.
 - (c) Meeting internal quality standards – formal review of each audit.
 - (d) Effective, efficient, continuously improving – review of budget, costs/ benchmarking, team contribution, business improvement process



- (e) Adding value and assisting the organisation in achieving its objectives
– see Annual Review.

20. RELATED PROCEDURES/DOCUMENTS

20.1 To ensure there is an adequate control framework in place, all staff should be mindful of the following policies and procedures:

- The Council Annual Plan and set of Core Values
- The 5 Year Strategy and Medium Term Finance Plan
- Code of Conduct
- Anti-Fraud and Corruption Policy
- Contract Standing Orders - supply of goods and services and/or entering into contracts
- Procurement Guide
- Financial Regulations (rules applicable to key areas of financial administration)
- Annual Governance Statement / Code of Corporate Governance
- Data Protection and GDPR regulations
- IT Security Policies
- Investigations policy/procedure
- HR policies and procedures

