

**BROMSGROVE DISTRICT COUNCIL**

**AUDIT BOARD**

**25th JUNE 2007**

**INTERNAL AUDIT PROCESS AND AUDIT BOARD GUIDANCE**

Responsible Portfolio Holder	Councillor G. N. Denaro
Responsible Head of Service	Head of Financial Services

**1. Summary**

- 1.1 To present a summary of the internal audit process.
- 1.2 To present the CIPFA Audit Committees: Practical Guide for Local Authorities document.

**2. Recommendation**

- 2.1 The Audit Board is recommended to note the internal audit process.
- 2.2 The Audit Board is recommended to note the guidance detailed in the CIPFA Audit Committees: Practical Guide for Local Authorities.

**3. Background**

- 3.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006) to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices".
- 3.2 The annual Use of Resources assessment requires the Council to ensure that:
  - A specific member group (such as an audit sub-committee or audit panel) has audit and governance issues as the principal responsibility in its terms of reference.
  - The member group provides effective leadership on audit and governance issues. It is proactive and has a forward looking programme of meetings and agenda items to ensure comprehensive coverage of all responsibilities in relation to the internal control environment.

The Council's Audit Board currently fulfils this requirement.

#### 4. Internal Audit Definition

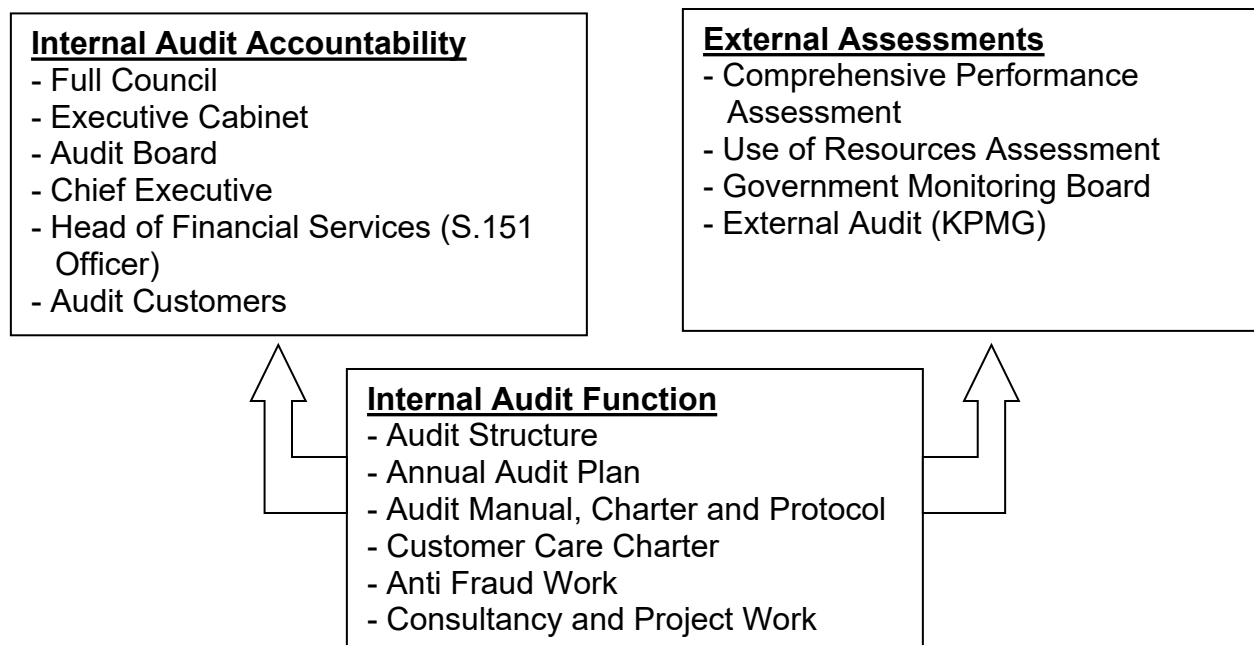
4.1 The Institute of Internal Auditors defines the internal audit process as "An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes".

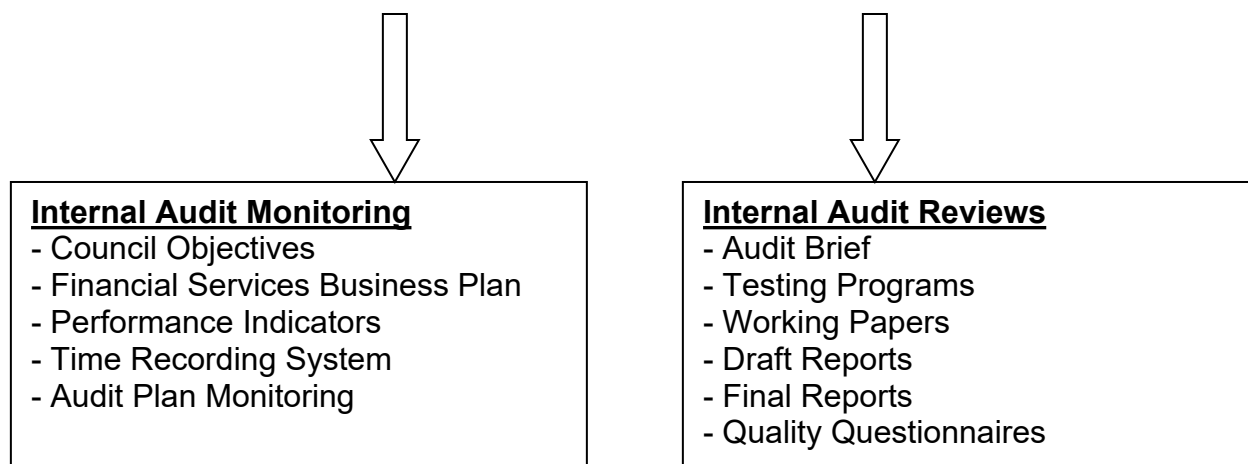
The key points from this definition are:

- Independence - Internal Audit should be independent of the activities it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations. Internal auditors should have no operational responsibilities.
- Objective - An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made.
- Assurance - An examination of evidence for the purpose of providing an independent assessment on risk management, control or governance processes for the organisation.
- Consulting - Consulting services generally involve two parties, the person or group offering the advice (i.e. the internal auditor) and the person or group seeking and receiving the advice.
- Add Value - Value is provided by improving opportunities to achieve organisational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.

#### 5. Internal Audit Process

5.1 A number of different areas feed into the internal audit process. The diagram below summarises the main areas.





5.2 Each area detailed above has a key role to play in the internal audit process and system of internal control in operation within the Council.

- Internal Audit Accountability:
  - Full Council - minutes and any recommendations made to the Executive Cabinet are reported to Full Council.
  - Executive Cabinet - minutes and any recommendations made to the Audit Board are reported to the Executive Cabinet.
  - Audit Board - Internal Audit work, performance and any key issues highlighted during the internal audit process are reported to the Audit Board.
  - Chief Executive - internal control weaknesses and any other necessary details are reported to the Chief Executive.
  - Head of Financial Services (S.151 Officer) - operational Internal Audit issues and performance are reported to the Head of Financial Services.
  - Audit Customers - a quality audit service is provided to all customers, as detailed in the Audit Charter and Customer Care Charter.
  
- External Assessments:
  - Comprehensive Performance Assessment (CPA) - the work completed by Internal Audit assists the Council as part of the CPA process.
  - Use of Resources Assessment - the Use of Resources assessment focuses on financial management but links to the strategic management of the Authority. Internal Audit plays a key role in delivering individual requirements within the Use of Resources assessment.
  - Government Monitoring Board - the Internal Audit section assists in implementing and monitoring actions requested by the Government Monitoring Board.
  - External Audit (KPMG) - the Internal Audit section completes eleven key financial system audits (i.e. Benefits, Budgetary Control, Debtors, etc.) in order to satisfy external audit requirements. The work of Internal Audit is reviewed annually by external audit.

- Internal Audit Function:
  - Audit Structure - the Internal Audit section consists of four members of staff, with a good mixture of qualifications and experience.
  - Annual Audit Plan - the Internal Audit section maintains a three year rolling Strategic Audit Plan and also produces an Annual Audit Plan of work. The plans are collated by risk assessing the Council activities and reviews are based on the high risk areas.
  - Audit Manual, Charter and Protocol - the documents that guide each aspect of the Internal Audit section, how it operates, how individual Auditors should behave and the sections commitment to providing a quality service.
  - Customer Care Charter - details how the section consults and communicates with our customers.
  - Anti Fraud Work - the section plays a proactive role in reducing fraud and embedding an anti fraud culture by undertaking investigations, issuing marketing documentation and producing standard strategies and procedures.
  - Consultancy and Project Work - the section contributes to Council projects as and when required.
  
- Internal Audit Monitoring:
  - Council Objectives - the work of the Internal Audit section aids the Council to achieve its objectives, specifically "Objective 2: Improvement".
  - Financial Services Business Plan - the overall performance and key deliverables of the Internal Audit section are detailed in the annual Financial Service Business Plan.
  - Performance Indicators - the Internal Audit section has adopted thirteen local Performance Indicators, which are monitored and reported monthly to the Head of Financial Services. Performance updates are issued to the Audit Board at each meeting.
  - Time Recording System - each Auditor submits a weekly timesheet detailing the work completed that week. This ensures the work of the section can be accurately monitored.
  - Audit Plan Monitoring - using the weekly timesheets, delivery of each assignment and ultimately the Annual Audit Plan can be monitored and necessary action taken.
  
- Internal Audit Reviews:
  - Audit Brief - before each audit review, the objectives and scope is agreed by the Service Manager. Both the Auditor and Service Manager sign up to the agreement.
  - Testing Programs - each audit review has a detailed testing program for the Auditor to follow. Testing areas are agreed with the Service Manager in advance.
  - Working Papers - each audit review has standard working papers for the Auditor to use, to ensure consistency.
  - Draft Reports - once the audit testing has been completed, any findings and subsequent recommendations are discussed with the

Service Manager. These are included in a draft report, issued to the Service Manager for comments.

- Final Reports - once the draft report has been agreed, a final report is sent to the Service Manager, Head of Service, Corporate Director and Chief Executive.
- Quality Questionnaires - following completion of the audit review a quality questionnaire is issued to the Service Manager. This enables them to detail what they liked or disliked about the audit process.

## **6. Internal Audit Performance Indicators**

6.1 The Internal Audit section has adopted thirteen local Performance Indicators. The indicators enable the service to be monitored, to ensure it is fulfilling its responsibilities, and enables any improvements or training needs to be identified. The Performance Indicators that have been adopted are:

- Delivery of Audit Plan (Jobs Finished).
- Delivery of Audit Plan (Resources).
- Productive audit time.
- Assignments completed within budget.
- Response time to fraud/allegations.
- Pre-audit meetings held for each audit.
- Post audit meetings held for each audit.
- Draft report turnaround.
- Final report turnaround.
- Number of recommendations accepted.
- Post Audit Questionnaires returned.
- Customer feedback rating.
- Attendance.

## **7. CIPFA Audit Committee Guidance**

7.1 During 2005 CIPFA issued the Audit Committees: Practical Guide for Local Authorities document. Good corporate governance requires independent, effective assurance about the adequacy of financial management and reporting. These functions are best delivered by an Audit Committee, independent from the executive and scrutiny functions.

Effective Audit Committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors. They also enhance public trust and confidence in the financial governance of an authority.

The Comprehensive Performance Assessment sets a challenge to Local Authorities to ensure that their audit committees work effectively.

The guidance has been written to help those authorities that have an Audit Committee in place to assess whether they are as effective as they need to be to contribute to good governance.

The guidance covers the following main subjects:

- Purpose of an Audit Committee.
- An Audit Committee's core functions.
- Features of an Audit Committee.
- An Audit Committee's structure and administration.
- Audit Committee Terms of Reference.

A full copy of the document is attached in Appendix A.

## **8. Financial Implications**

8.1 None outside existing budgets.

## **9. Legal Implications**

9.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006) to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices".

## **10. Corporate Objectives**

10.1 Council Objective 02: Improvement.

## **11. Risk Management**

11.1 The main risks associated with the details included in this report are:

- Non-compliance with Internal Audit standards and regulations for Local Government.
- Ineffective Internal Audit service.
- Internal Audit service not contributing to the Council's improvement agenda.
- Ineffective Audit Board.

11.2 These risks are being managed as follows:

- Non-compliance with Internal Audit standards and regulations for Local Government.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

- Ineffective Internal Audit service.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

- Internal Audit service not contributing to the Council's improvement agenda.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

- Ineffective Audit Board.

Risk Register: Financial Services

Key Objective Ref.: 3

Key Objective: Efficient and effective Internal Audit service

## 12. Customer Implications

12.1 No customer implications.

## 13. Other Implications

13.1

Procurement Issues	None
Personnel Implications	None
Governance / Performance Management	None
Community Safety including Section 17 of the Crime and Disorder Act 1998	None
Policy	None
Environmental	None
Equalities and Diversity	None

## 14. Others Consulted on the Report

14.1

Portfolio Holder	No
Chief Executive	Yes
Corporate Director (Services)	No
Assistant Chief Executive	No
Head of Service	Yes
Head of Financial Services	Yes

Head of Legal & Democratic Services	No
Head of Organisational Development & HR	No
Corporate Procurement Team	No

## **15. Appendices**

15.1 Appendix A: Audit Committees: Practical Guide for Local Authorities.

### **Background Papers**

Audit Board agenda and reports - 19th February 2007.

### **Contact officer**

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