



AUDIT COMMITTEE – 27th March 2013

INTERNAL AUDIT CHARTER AND STRATEGY - REVISED MARCH 2013

1. Purpose of the Report

- 1.1 This report prefaces the annually reviewed and revised Internal Audit Charter and Strategy. Both documents are attached.

2. Recommendation

- 2.1 **It is recommended that the Audit Committee consider the Internal Audit Charter and Strategy and be satisfied that they represent an effective means of describing the function and that the delivery of the Strategy will support the assurances the Committee receive from Internal Audit.**

3. Background

- 3.1 Recommended practice in the form of the Code of Practice for Internal Audit 2006 will be replaced by the Public Sector Internal Audit Standards which become effective from the 1st April 2013. The update of the current Charter and Strategy has considered the requirements of this new standard and addressed these where appropriate.
- 3.2 The Charter and Strategy, complimented by regular reports and an annual report, are intended to give the Audit Committee assurances regarding how the Internal Audit function is managed, organised and delivers its service.

4. The Charter and Strategy

- 4.1 The Audit Committee agreed the Charter and Strategy documents at its March 2012 meeting. A further review has been completed.
- 4.2 This latest review has ensured that the Charter and Strategy reflect the current working arrangements of the function but also the aspirations and developments necessary to ensure continuous improvement. The Charter and Strategy will be made available to all Council employees through the Service's Intranet site.
- 4.3 The Strategy has been changed most notably to highlight the changes arising from the reduced resources available to the service which will impact on the scope and breadth of audit coverage. In addition, the changes reflect the Council's key risk areas in respect of the efficiency drive / Future Council arrangements and significant change programme.

4.4 The key changes are summarised as follows:

- i. The Strategy reinforces the objective of the service as a valuable asset to the Council and support to senior management in meeting their corporate responsibilities.
- ii. The Strategy addresses how the Internal Audit service will be delivered given the reduced resources and the changes to the risk profile of the Authority along with the requirement of the Authority to remain 'safe' throughout an period of unprecedented change.
- iii. The Strategy explains the basis of the development of audit work aimed at the corporate efficiency drive / Future Council initiatives, including the arrangements for achieving and demonstrating value for money.
- iv. The development of specialism's to facilitate the delivery of themed type audits.
- v. Explains the changing technical and non technical skills required of the audit team. In particular, in respect of the increase in number of services delivered by an external party resulting in potentially fragmented governance arrangements.

4.5 The Charter and Strategy will undergo an annual review to ensure they remain reflective of current working arrangements, but also highlight developmental areas where the service is likely to change to meet changing operational or audit industry requirements. The documents should also serve as a source of reference for the Audit Committee on how the Internal Audit function is organised and managed.

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Date : 15th March 2013

INTERNAL AUDIT CHARTER

1. Introduction

The Public Sector Internal Audit Standards (PSIAS) are mandatory guidance and constitute principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance.

The PSIAS require that as an important element of best practice, the Service has a formal Internal Audit Charter defining its purpose, authority and responsibilities. These must be consistent with its Definition of Internal Audit, Code of Ethics and Professional Standards.

The Internal Audit Service is a key component of the Authority's governance framework. This Charter provides the framework for the conduct of the Internal Audit function and has been considered and approved by the Audit Committee. This Charter will be reviewed at least annually by the Audit Committee to ensure it remains relevant to the demands and responsibilities of the Service and supports the Authority's corporate objectives. Any substantive changes will be formally approved by the Chief Executive on the recommendation of the Audit Committee.

The Authority is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the Authority on whether effective and efficient arrangements exist. The annual Internal Audit opinion, which informs the annual governance statement, both emphasises and reflects upon the importance of this aspect of Internal Audit work. The Authority's response to Internal Audit activity should lead to the strengthening of the control environment and therefore contribute to the achievement of the corporate objectives.

To provide optimum benefit to the Authority, Internal Audit should work in partnership with management to improve the control environment and assist the Authority in achieving its objectives. This partnership must operate in such a way as to ensure that legal requirements and those of the PSIAS are met. An Internal Audit service that embraces the challenges set out above will be a vital component of a successful organisation.

2. The Purpose of the Charter

The purpose of this Charter is to set out the nature, objectives, outcomes and responsibility of the Internal Audit Service along with the scope of its activities within Barnsley M.B.C. and certain partner organisations for which Internal Audit has a service level agreement or other basis for jurisdiction. This therefore forms the basis of the terms of reference for the function.

Alongside the Charter is the Internal Audit Strategy. Whilst not specifically a requirement, the Strategy sets out how the Charter will be delivered and forms a key part of the Service Delivery Plan process.

3. Definition of Internal Audit

The PSIAS provides a new definition of Internal Audit:

“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”.

This definition encourages a collaborative style of audit review which focuses on evaluating and improving the effectiveness of risk, control and governance and therefore goes beyond basic compliance.

The Internal Audit Service continues to face a challenging agenda to deliver the services the Authority requires and to ensure it does so providing added value. The Service needs to be able to react and adapt to the rapid pace of change which is taking place both locally and nationally. Accordingly, the Charter has been extended to include the aspirations of the Internal Audit Service, which are to:

- understand the whole organisation, its needs and objectives
- understand its position with respect to the organisation’s other sources of assurance and plan its work accordingly
- be seen as a catalyst for change at the heart of the organisation
- add value and assist the organisation in achieving its objectives
- be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact
- be innovative and challenging
- help to shape the ethics and standards of the organisation
- ensure the right resources are available, recognising that the skills mix, capacity, specialisms, qualifications and experience requirements all change constantly
- share best practice with other auditors, and
- seek opportunities for joint working with other organisations’ auditors.

For the purposes of Internal Audit activity, the term ‘board’ refers to the Audit Committee. The term ‘senior management’ refers to the Chief Executive, Executive Directors and Assistant Chief Executives that form the Senior Management Team (SMT).

The PSIAS refer to the officer responsible for the Internal Audit function as the Chief Audit Executive. This role is undertaken by the Assistant Executive Director of Finance (Audit & Risk Management). From hereafter this role is referred to as the Head of Internal Audit (HoIA)

4. Scope of Internal Audit

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Authority’s governance, risk management, and internal control processes as

well as the quality of performance in carrying out assigned responsibilities to achieve the Authority's objectives.

Internal Audit's remit extends to the entire control environment of the Authority.

4. Responsibilities and Objectives of Internal Audit

The responsibilities and objectives of Internal Audit are as follows:

- i. To be a valuable asset to the Council and to support senior management in meeting their corporate responsibilities.
- ii. To contribute to assurances in relation to the robustness and reliability of internal controls and governance to support the Annual Governance Statement (AGS).
- iii. To support the Acting Assistant Chief Executive Director, Finance, Property & Information Services to discharge her duties as s151 Officer.
- iv. To review, appraise and report on the extent to which the assets and interests of the Authority are accounted for and safeguarded from loss and the suitability and reliability of financial and other management data and information.
- v. To support the corporate efficiency drive including the arrangements for achieving value for money and effective change management.
- vi. To provide soundly based assurances to management on the adequacy and effectiveness of their internal control, risk and governance arrangements. Such assurances include information technology governance and ethics.
- vii. To assess the adequacy and effectiveness of the Authority's contracts, procurement and governance arrangements.
- viii. To assess the corporate risk management process and make recommendations to improve and embed the process where required whilst ensuring that Internal Audit does not take on management responsibilities for managing risks.
- ix. To evaluate the risk of fraud and the manner in which it is managed by the Authority. In addition, to reduce in the incidence of fraud and irregularity by publicising the findings of fraud investigations to act as a deterrent and provide a quality corporate fraud and irregularity prevention, detection and investigation service.
- x. To disseminate examples of best practice in the application of an effective control environment.
- xi. To provide an Internal Audit advisory service intended to add value and improve the Council's governance, risk management and control processes.
- xii. To provide advice and an objective and supportive consulting service in respect of the development of new programmes and processes and / or significant changes to existing programmes and processes including the design of appropriate controls. This is usually achieved through membership of Officer Groups, Governance and other Boards or working parties as well as direct contact with officers within services. Such advice and consultation work forms an increasingly significant part of the audit plan.

- xiii. To support schools in the raising of control and governance standards.
- xiv. To prepare timely reports to management to facilitate the improvement of the control environment.
- xv. To undertake Audit support activities in respect of assisting the Audit Committee to discharge its responsibilities; monitoring the implementation of agreed recommendations; disseminating across the entity better practice and lessons learnt arising from its audit activities, and managing the audit function.

5. Organisational Independence of Internal Audit

Independence:

An independent approach and mindset is essential to the effectiveness of the Internal Audit function. To ensure this, Internal Audit will operate within a framework that allows:-

- Unrestricted access to the Chief Executive; the Acting Assistant Chief Executive. Finance, Property & Information Services; the Chair of the Audit Committee and Audit Committee Members; individual Executive Directors; all Authority employees and the Authority's External Audit provider.
- The HoIA reporting in his own name.
- Segregation from line operations.

The HoIA has direct authority and operational responsibility for the Risk Management service and significant input into certain governance functions i.e. AGS. When audits are required of these areas, the Senior Audit Manager reports direct to the Acting Assistant Chief Executive, Finance, Property & Information Services. This arrangement helps maintain independence and avoid any conflicts of interest.

With the exception of these two functions, the Internal Audit function has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in original line processing functions or activities.

Internal Auditors are not involved in undertaking non audit activities and an Auditor will not be involved in the audit of any system or process for which they had previous operational responsibility for a period of two years.

Audit responsibilities are periodically rotated to avoid over-familiarity and complacency and also to provide for service continuity and resilience.

Objectivity:

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by:

- i. taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment;

- ii. declaring any real or perceived interests on an annual basis. In addition, a prompt is included at the assignment planning phase of each audit;
- iii. accepting anything that may impair or be presumed to impair their professional judgement such as gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties in accordance with the Code of Conduct;
- iv. disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review;
- v. not using information obtained during the course of duties for personal gain and;
- vi. complying with the Bribery Act 2010

Confidentiality:

Internal Auditors are expected to display objectivity by:

- i. acting prudently when using information acquired in the course of their duties and protecting that information and;
- ii. not using 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 Authority.

Integrity:

In the conduct of audit work, Internal Audit staff will:

- i. comply with relevant professional standards of conduct and perform their work with honesty, diligence and responsibility and;
- ii. observe the law and respect and contribute to the legitimate and ethical objectives of the Authority.

Competency:

Internal Auditors are expected to be competent in their role by:

- i. possessing the knowledge, skills and technical proficiency relevant to the performance of their duties;
- ii. being skilled in dealing with people and communicating audit, risk management and related issues effectively;
- iii. maintaining their technical competence through a programme of continuous professional development;
- iv. exercising due professional care in performing their duties and;
- v. comply with the PSIAS.

6. Accountability, Reporting Lines and Relationships of the HoIA

Accountability:

Under the Accounts and Audit Regulations 2011, Regulation 6, the Authority is responsible for maintaining an adequate and effective Internal Audit function. Regulation 4 of these Regulations requires at least annually, the Authority

must conduct a review of the effectiveness of the system of internal control. In practice, the Acting Assistant Chief Executive, Finance, Property & Information Services, being the Authority's statutory s151 Officer and a member of the corporate Senior Management Team, has responsibility for complying with these Regulations.

The Acting Assistant Chief Executive, Finance, Property & Information Services is responsible for the overall line management of the Internal Audit function.

Reporting Lines and Relationships:

The Assistant Executive Director of Finance (Audit & Risk Management) reports administratively to the Acting Assistant Chief Executive, Finance, Property & Information Services and has the strategic and operational responsibility for the Internal Audit function and fulfills the specific role of the HoIA.

While audit plans are considered by the Acting Assistant Chief Executive, Finance, Property & Information Services and the Audit Committee, the professional responsibility for Internal Audit coverage rests with the Assistant Executive Director of Finance (Audit & Risk Management) who may determine and change the Service's own priorities as appropriate. The Assistant Executive Director of Finance (Audit & Risk Management) has a functional reporting line to the Chair of the Audit Committee, Elected Members, the Chief Executive and SMT Members.

The HoIA reports quarterly to the Audit Committee. Each report provides information in respect of:

- i. audits completed;
- ii. an assurance opinion on the overall state of internal controls for that particular quarter along with any fundamental issues requiring management attention based on the work of internal audit;
- iii. progress in implementing the strategy and audit work plan, and
- iv. the status of the implementation of agreed internal audit recommendations and;
- v. a report annually on the overall state of internal controls and any fundamental issues requiring management attention based on the work of internal audit as reported within the quarterly reports.

Internal and external audit activities will be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort. Periodic meetings and contact between internal and external audit shall be held to discuss matters of mutual interest. External Audit will have full and free access to all internal audit plans, working papers and reports.

The existence of Internal Audit does not diminish the responsibility of management to establish and maintain systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

8. Arrangements for Anti Fraud and Anti Corruption

Arrangements are set out within the Corporate Anti Fraud, Corruption and Bribery Policy and Strategy and other supporting fraud related policies. The Policy requires the HoIA to be notified of all suspected or detected fraud, corruption, impropriety or other irregularity, in order to inform the annual internal audit opinion and the risk-based plan.

Internal Audit's role in respect of fraud-related work is as follows:

- i. In support of the Corporate Anti-Fraud, Bribery and Corruption Policy, Internal Audit prepares periodic guidance for managers and Members;
- ii. To undertake proactive fraud detection work in high risk areas as defined by the risk management process;
- iii. To co-ordinate the Authority's response to the mandatory National Fraud Initiative (NFI) exercise;
- iv. To contribute to the corporate counter fraud arrangements and;
- v. In certain circumstances and where discussed and agreed with management, Internal Audit assume a lead role in the investigation of alleged irregularities. Internal Audit provides guidance and support to management throughout the investigatory process. The balance of work between that undertaken by Internal Audit and management will be kept under review to ensure the most appropriate use of specialist resources. With this in mind it is anticipated that Internal Audit will spend increasingly less time undertaking routine investigations.

9. Authority of Internal Audit

The scope of Internal Audit allows for unrestricted coverage of all the Authority's activities and unrestricted access to all functions, records, data, personnel, premises and assets of the Authority and its partner organisations such as Bull TCL, Berneslai Homes, NPS as deemed necessary in the course of audit work and as set out in relevant partnership agreements and contracts.

Internal Audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

All records, documentation and information accessed in the course of undertaking internal audit activities are to be used solely for the conduct of these activities. The HoIA and staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

10. Appropriate Resourcing of Internal Audit

At least annually, the HoIA will submit to the Chief Executive and the Audit Committee an Internal Audit plan for review and approval. The plan will consist of a work schedule and resource requirements for the next financial year. The plan includes the impact of any resource limitations and significant interim changes.

The Internal Audit plan is developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee. Any material deviations from the approved Internal Audit plan are communicated initially to the Acting Assistant Chief Executive, Finance, Property & Information Services and to the Audit Committee through periodic activity reports.

11. Assurances Provided to Outside Parties

Berneslai Homes:

Internal Audit undertakes work for Berneslai Homes, the Authority's housing provider, an ALMO. This work is governed through a service level agreement. Berneslai Homes market tested the provision of Internal Audit services for a second time during 2011. As a result the SLA has been extended for a further 3 years.

Coverage of housing matters is very similar to that prior to the establishment of the ALMO and therefore provides assurances to the Authority which remains the ultimate landlord and responsible for the housing revenue account.

South Yorkshire Joint Secretariat:

The Assistant Executive Director of Finance (Audit & Risk Management) is also the HoIA for the South Yorkshire Joint Authorities (South Yorkshire Police Chief Constable, South Yorkshire Police and Crime Commissioner, South Yorkshire Fire and Rescue Authority, South Yorkshire Pensions Authority and Integrated Transport Authority). Time spent will be predominantly at audit management level and it is therefore anticipated that this will not directly impact on the delivery of other planned audit work for BMBC. Time spent on managing this service is chargeable to the Joint Secretariat and therefore generates income for the Audit service.

The South Yorkshire Joint Secretariat audit service and the BMBC audit service will combine fully from the 1st April 2014. The combining of the two Internal Audit teams will likely give rise to further efficiencies over the next 12 – 24 months.

Academies:

The Division also intends to market audit and risk management services to Academies. The level of resource expended on this area of work will be kept closely under review in order to ensure that there is no detrimental impact on level of resources required to undertake Internal Audit work on behalf of the Authority.

Other Bodies:

There are no plans to undertake work for external organisations other than those closely linked to the Authority and where there is a clear benefit to the

Authority from Internal Audit having a role in advising or reviewing that organisation's governance and control arrangements.

INTERNAL AUDIT STRATEGY

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1. PURPOSE OF THE STRATEGY

1.1 This document sets out the continuing strategy for Internal Audit. The Strategy demonstrates how the Service will meet the aims and objectives set out in its Charter, and therefore how the Service will support the overall aims and objectives of the Authority, while maintaining professional standards and demonstrating efficiency, effectiveness and value for money. The Strategy therefore covers:

- Work in support of the Annual Governance Statement.
- Alignment of the Internal Audit planning process with strategic and key risks relating to the organisation's vision and priorities and objectives as set out within the Corporate Plan.
- Other key aspects of coverage such as main systems work, input to the Future Council arrangements, systems developments, business support, advice and involvement in corporate projects.
- Fraud and irregularity work.
- Support and accountability to the Audit Committee.

1.2 The Strategy also considers how the outcome of this work is reported and communicated to stakeholders, and how the Service resources its work through recruitment, staff development and succession plans. In addition, how the Service then monitors how effectively it ensures an appropriate balance between the risks facing the Authority and available resources.

2. INTERNAL CONTROLS ASSURANCE

2.1 Annual Governance Statement (AGS)

Regulation 4 of the Accounts and Audit Regulations 2011 states the responsibility of the Authority is to maintain "a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk." The Regulations require that the Authority reviews the effectiveness of its system of internal control at least annually, and include a statement in its published annual accounts, providing an opinion on the overall control environment.

The AGS is first and foremost a corporate statement and should not be regarded as an "audit requirement". However, Internal Audit has an important role in the provision of assurances and evidence to Members and senior management in support of the Statement. Internal Audit will provide an annual opinion on the effectiveness of internal controls as reviewed in the programme of work, which will be reported to the Audit Committee shortly after the year end. The requirement to have a Statement covering all aspects of internal control significantly widens the remit of Internal Audit in providing supporting assurances.

The AGS is derived through a variety of sources of assurances and supporting evidence. A diagram depicting this is attached to this Strategy as Appendix 1. The matrix clearly sets out the contribution to be made by Internal Audit. This contribution principally comprises:-

- An annual risk based and comprehensive Internal Audit plan.
- An annual review of risk management arrangements.
- A cyclical risk based review of the application of corporate policies and regulations.
- An annual review of the assurance statements provided by Executive Directors, Assistant Chief Executives and Assistant Directors.
- An annual review and reporting on compliance with the Corporate Code of Governance in support of the AGS.

Risk based auditing is addressed in more detail below. Internal Audit will need to ensure that resources are prioritised to undertake the work specified above.

3. RISK MANAGEMENT AND RISK BASED AUDITING

3.1 Introduction

Risk Based Audit (RBA) has evolved in response to both the enhanced corporate governance requirements expected of organisations and the principles of modern risk management which demand that the risks relating to an organisation's ambitions and objectives be assessed and addressed. Achievement of this requires a shift away from traditional audit planning to an approach driven by management's view of the significant risks facing the objectives of the organisation.

3.2 Interaction with Corporate Risk Management Arrangements

In accordance with the principles of risk based audit, Internal Audit should expend resources and develop an audit universe of auditable areas which is suitably prioritised based on the areas presenting greatest risk to the Authority. To achieve this objective, Internal Audit will consider the Authority's Corporate Plan and the Community Strategy. The strategic, operational and project risk registers also form a vital reference point for its annual planning process, allocating resources to significant risk areas in discussion with management, the Risk Management Service and utilisation of the risk register information. The working arrangements between Internal Audit and Risk Management have been formalised in the form of an agreed Protocol. (Refer to Appendix 2).

The adoption of risk based auditing results in a new plan every year based on significant current risks, which may mean that auditable areas and systems deemed as low risk or of less materiality may be covered infrequently. The plan created operates on a rolling basis with audits planned over the medium and longer term.

Internal Audit's ability to adopt a risk based approach is very much reliant on the status and maturity of the Authority's risk management processes. The risk management arrangements within the Authority have been significantly improved over recent years which has enabled risk based audit planning to be embraced. This planning process takes into account the balance required between allocating audit resources to areas of significant risk, maintaining sufficient provision to support corporate initiatives, core systems work and others areas of work requested by management which may not necessarily be recorded within a risk register.

The Head of Internal Audit (HoIA) retains the right and responsibility to adjust the programme of work balancing available resources, prevailing risks, requests from management using his own professional judgement.

3.3 Internal Audit Coverage of Risk Management Arrangements

A key element of assurance in support of the AGS will be an audit opinion on the effectiveness of corporate risk management arrangements. For risk based auditing to be effective and provide reasonable assurance there needs to be confidence in the risk management process utilised by the Authority. This is demonstrated through an annual audit designed to provide an assessment of the status and maturity of the Authority's risk management process. This provides an opinion/assurance on the following:-

- The design and operation of the risk management system.
- The adequacy and effectiveness of the system of internal control in sufficiently mitigating risks.
- The monitoring and reporting on risk issues including the application of risk tolerance principles.
- An evaluation of the level of residual risk (acceptable Risk) in relation to the Authority's risk appetite.

3.4 Audit Planning

The outcome of the above review will inform the audit planning process. Having a mature risk management process aids the application of a risk based approach to audit.

The following are the key issues in the development of the risk based audit plan :-

- An understanding of the organisation's vision and ambition, including the Authority's three key priorities (growing the economy, improving people's potential and achievement and changing the relationship between the council and community) and the five areas relating to how the Council will improve and change (future people and culture, planning for the future, future leadership and investing for the future) as articulated in the Corporate Plan and ensuring that audit coverage is directed towards these areas of corporate importance.
- Identification of the significant (key) risks arising from the above.

- Understanding which areas of service delivery the significant risks impact upon.
- Identifying where the most significant risks occur.

The Internal Audit Plan includes a proportion of days for “standard” audit work such as core systems, audit advice, requests by management and corporate initiatives requiring audit input. Consequently, the plan is not totally risk based. However, in the event of insufficient resources the “standard” audit work would be prioritised based on risk.

4. OTHER AREAS OF INTERNAL AUDIT WORK

In addition to the emphasis on work in support of the AGS, other key areas of Internal Audit coverage are as follows:

4.1 Managed Audit and Main Financial Systems Work

Main financial systems are a traditional element of Internal Audit work, but one which will need to remain in annual audit plans for the foreseeable future. The Managed Audit methodology adopted by the External Audit to the audit of the Authority’s accounts means that the External Audit provider seeks to place reliance on annual Internal Audit reviews of key systems to support their opinion on the accounts. (This includes any systems operated on behalf of the Authority by external agents, i.e. the Housing Rents system operated by Berneslai Homes.)

The nature and scope of the audit of some systems has changed significantly with the implementation of SAP. The on-line and integrated nature of the system places greater emphasis on IT controls and coverage of this therefore increases in significance.

The risk based approach to audit has not changed the main financial systems coverage thus far. As SAP and other main financial systems become further embedded and developed the scope of this coverage has changed over the last few years to reflect the maturity and stability of the systems, but also to provide a better audit for the client services. The change has resulted in a lighter touch being applied to core system reviews. Providing that the previous audit did not result in a negative assurance opinion and there are no known significant audit issues, the system would be reviewed in detail on a three year cyclical basis. This approach has been discussed and agreed with the External Audit provider in accordance with the managed audit approach.

Whilst there is significant liaison with External Audit regarding the coverage of the main financial systems, the work undertaken is also required and influenced by the Assistant Chief Executive (Finance, Property & Information Services) in fulfilment of her responsibilities as S151 Officer.

4.2 Future Council Arrangements / Efficiency Drive

In support of the Council's Future Council initiative, Internal Audit will dedicate resources in order to independently assess the effectiveness of these arrangements. The changes will impact on internal controls, risk and governance arrangements across the Authority. It will therefore be important to provide assurance that the Authority remains 'safe' throughout a period of significant change to its risk profile.

4.3 Schools

The Division has continued to dedicate a significant level of resource to support schools to meet the requirements of Schools Financial Value Standard. In support of this standard Internal Audit will continue, to complete the risk based programme of school visits focusing on the key financial arrangements within each school.

Work will continue in respect of the roll out of a formal Annual Governance Process to ensure effective governance arrangements within all schools and the awareness of Governing Bodies is improved. This has also extended to the Advanced Learning Centres. Our continued support to schools has been well received.

The results of the aforementioned audit work, the Annual Governance information along with the application of risk based principles will be utilised to identify a number of themed type audits of the control and governance framework. All schools will benefit from the results of these themed type audits and will be issued with a suitably anonymised report of the findings to ensure opportunities for control improvements and areas of best practice are shared. The sample of schools visited for the purpose of testing the application of the controls will receive individual detailed reports.

Provision will be made should there be a need to undertake a specific school audit arising from particular concerns.

In order to further support schools, Internal Audit will prepare periodic guidance and information such as newsletters for Head Teachers, Bursars and Chairs of Governors in order to raise their awareness of governance, risk and control matters. This information will be made available on the Internal Audit Intranet site.

The Division also intends to market audit and risk management services to Academies. The level of resource expended on this area of work will be kept closely under review in order to ensure that there is no detrimental impact on the level of resources required to undertake Internal Audit work on behalf of the Authority.

4.4 Systems Development Work

Internal Audit continues wherever possible to adopt a proactive approach to the Authority's change programme and development of significant new systems across the Authority. This approach entails the provision of comment

and input to developing systems rather than waiting to audit them after implementation. This approach also aims to ensure that new systems contain appropriate levels of internal control, and achieve the purpose for which they are being implemented, at a stage where the system can still be amended to accommodate changes.

Internal Audit do not however have a right of veto over new systems and the role in such developments is one of independent advisor / 'critical friend'.

4.5 IT and Information Governance

Internal Audit will assess whether the Authority's overall IT and information governance arrangements sustain and support its corporate strategies and objectives. Internal Audit will also provide independent advice as these governance arrangements are constantly revised and developed.

4.6 Corporate Issues and Projects

The Authority has many significant corporate projects ongoing, particularly relating to the change programme, service redesign due to staffing reductions, integration of the Authority's systems, and to regenerate the town centre and local economy. Internal Audit continues to be involved in such projects, in a non-executive advisory capacity.

More recently, the number of requests received from senior managers requesting Internal Audit involvement in such projects has increased. This increase may continue given the growing alignment of the Internal Audit function with risk management and the ambitions of the Authority. In addition, this type of "reactive" work reinforces the need to establish and maintain a flexible audit plan in order that the Division can demonstrate that it is responding to the needs of senior management.

4.7 Non Financial Audit and Advisory Services

Internal Audit continues to receive requests for unplanned work from senior management. While requests for audit advice have always been received, a recent trend has been towards the commissioning of work that covers less financial based areas.

Provision for specialist and general advice on controls, governance and effectiveness is a key part of the Audit service. A measure of Internal Audit's profile is the increasing trend for management to contact the service before a course of action is undertaken.

As with the involvement in corporate projects, this type of work is unlikely to reduce with the growing alignment of Internal Audit plans with significant risks. Careful management of all Internal Audit work will continue to ensure that sufficient resources remain to provide the required corporate assurances in support of the AGS and statutory financial responsibilities.

Fee paying work such as grants / accounts will be considered and developed, and undertaken where this is in the interests of both the Internal Audit Service

and the Authority as a whole. Accordingly, daily chargeable audit rates will be reviewed on an annual basis.

Internal Audit operates a contingency to provide some capacity to undertake such work and therefore minimising the impact on planned risk based work.

4.8 Fraud Prevention and Investigation

It should be noted and recognised that the ultimate responsibility for the prevention and detection of fraud lies with management. Internal Audit act as an aid to management by assessing internal controls designed to prevent the occurrence of fraud and corruption and the associated fraud risks and assisting in the progression of management investigations and disciplinary action.

It is a duty of management to alert Internal Audit should there be a suspicion of fraud or irregularity.

The role of Internal Audit in respect of fraud related work is set out within the Charter. In summary, this includes:

Preparation of periodic guidance for managers and Members highlighting responsibilities for the prevention and detection of irregularities; Bulletins highlighting recent local and national incidents to raise awareness of internal controls and the warning signs of fraud and; What to do where fraud is suspected.

The above will be supplemented by the production of good practice guides for systems and transactions known to be susceptible to fraud. These will be made available on the Internal Audit Intranet site.

The Service will also undertake proactive fraud detection work in high risk areas as defined by the risk management process. In undertaking this work, Internal Audit will seek to develop the use of Computer Assisted Audit Techniques (CAAT's) and to exploit reporting and interrogation facilities in the SAP system. The Division will also continue to co-ordinate the Authority's response to the statutory national Fraud Initiative (NFI) exercise.

Internal Audit has one Principal Auditor post dedicated to fraud and irregularity work. Investigatory work sometimes requires resources over and above this one post, additional capacity arising during an audit year may be deployed from within the core audit function. The impact of the allocation of these resources on the Service's ability to provide statutory assurances will be monitored.

4.9 Non Audit Work

Whilst there are no plans to undertake any non audit work, as a resource to the Authority with a particular suite of skills, there may be an occasion where this is necessary. Should this be the case then arrangements will be put in place to ensure an appropriate separation within the Internal Audit function to preserve independence and objectivity.

5. REPORTING AND COMMUNICATIONS

5.1 Reporting and Agreement of Audit Plans

Annual Internal Audit plans are discussed with the Assistant Chief Executive (Finance, Property & Information Services) in respect of her statutory financial management responsibilities. The Chief Executive is also specifically consulted at the end of the planning process to give assurances of the plans breadth and overall coverage. The annual plan is then reported formally to the Audit Committee.

Separate arrangements exist to approve the audit plans for work undertaken under a service level agreement with Berneslai Homes. Audit plans for the Company are discussed with the Chief Executive, Finance Director and Chair of the Audit Committee and then formally approved by the Company's Audit Committee.

Where services are provided on behalf of the Authority, the Service will report back any significant issues arising to the relevant managers.

5.2 Audit Reporting and Follow-up of Recommendations

In reporting the outcome of individual audit assignments, the Service will, where appropriate, follow a proactive and consultative approach to management, the key principles of which are:-

- Advance discussion and agreement of the scope, objectives of audit assignments, timescales for the completion of the audit assignment along with the recipients of the audit report.
- Immediate reporting of any fundamental or critical issues arising during the course of audit work.
- Post audit meetings (with or without a draft report as required) to discuss the conclusion and outcome of audit work on a prioritised basis and agree actions.
- Any areas of disagreement which are not resolved by discussion, are recorded in the action plan and the residual risk highlighted within the report.
- Providing management with the opportunity to give feedback to the Service on how valuable and effective they found the audit process.

The process for the communication of audit work is designed to conform with the PSIAS.

Final audit reports will include an overall assurance opinion on the adequacy and effectiveness of the system of risk management, controls and governance arrangements. The report will be issued on a timely basis and responses sought from senior management on the implementation of agreed recommendations in accordance with Financial Regulations. The non receipt

of a response will be followed up with the responsible manager and reported to the Audit Committee.

In order to facilitate more effective use of information, the Risk Management service receives a copy of all audit reports. Information is utilised for the purpose of enhancing the Risk Management process.

In accordance with the PSIAS a process should be established to monitor and follow up agreed actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action. Accordingly, the Service follows-up all fundamental and significant recommendations (including merits attention recommendations for core system audits). The results of this work are reported to the Audit Committee on a quarterly basis.

In order to proactively engage and support services, approximately four weeks prior to the presentation of the Quarterly Audit Committee Report, details of outstanding report recommendations are issued to Executive Directors and Assistant Directors / Assistant Chief Executives. This follow-up and reporting procedure to the Audit Committee has greatly raised the profile and status of audit reports, compliance with audit procedures and improvement in controls.

5.3 Reporting of Ad Hoc Advice and Development / Consultancy Work

Internal Audit undertakes a variety of tasks which do not justify a formal audit report, e.g. responding to one-off queries, advice and consultancy type work given verbally at meetings e.g., projects and developments. The Service ensures that details of advice given and recommendations made, are recorded by retention of memos / copy e-mails, or file notes and minutes of meetings. Such records are retained in respect of advice given which is likely to (or intended to) influence management decisions or effect changes in systems and processes.

Issues and risks arising would also be recorded within project and operational risk registers in order to be managed by project lead officers. Details of issues arising would not necessarily be reported separately to the Audit Committee. However, details of the engagement and work undertaken would be recorded within the Quarterly Audit Committee Report and any material issues would be followed up in accordance with the standard reporting and monitoring process.

5.4 Reporting to the Audit Committee

Internal Audit reports as follows :-

- Quarterly on audit plans, performance against plans and against key performance measures, and on key issues arising from audit work.
- To the Berneslai Homes' Audit Committee on performance against the Service Level Agreement with the Company, and on individual audit reports.

- Both Audit Committees provide a route for the escalation of a failure to respond to audit reports, or the non-implementation of agreed recommendations, with the potential for management to be called to answer to the Committees.

5.5 Annual Report of the Head of Internal Audit

The annual report to the Audit Committee includes an Internal Audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control as determined from the programme of work undertaken. The following elements are incorporated into annual audit reports to comply with PSIAS :-

- An opinion on the overall effectiveness of the Authority's internal control environment.
- Disclosure of any qualification to this opinion, together with the reason for the qualification.
- The disclosure of any impairments or restriction in scope of audit work.
- A summary of the audit work undertaken to provide this opinion, including any reliance placed on assurance work by other bodies.
- Details of any issues that the Assistant Executive Director of Finance (Audit and Risk Management) judges to be particularly relevant to the AGS.
- A comparison of work actually undertaken with the work originally planned and a summary of the performance of Internal Audit against its performance measures and criteria (currently reported separately from the annual audit opinion).
- An opinion on the compliance with the Service's performance measures.
- A statement to confirm work has been completed independently and in accordance with the PSIAS.
- The results of the Quality Assurance Improvement Programme (QAIP). It is acknowledged that this is a new requirement arising from the introduction of the PSIAS and therefore the QAIP is currently being defined and developed.
- Any other issues that the HoIA judges is relevant to the preparation of the AGS.

5.6 General Information for Management

As part of our Service Standards, half yearly progress reports are provided to each Directorate.

Internal Audit seeks to proactively provide management with information about audit work and how they may be contacted. This is achieved by attendance at Directorate Management Team meetings as part of the annual planning process, and at the request of an Assistant or Executive Director / Assistant Chief Executive.

The Internal Audit Intranet site provides general information about the Internal Audit function, contact details, useful documents and reference material with a view to ensuring that services understand the Internal Audit function. The Intranet site is subject to continuous review, update and development. In addition, proactive meetings are held with Head Teachers and School Bursars to promote greater understanding of the purpose and function of Internal Audit.

5.7 External Audit Provider, Other Inspectorates or Auditors

The Assistant Executive Director of Finance (Audit and Risk Management) will ensure that there is effective liaison between External and Internal Audit, through regular meetings with representatives from the external audit provider and the sharing of information. A formal protocol setting out the joint working arrangements has recently been drafted and will shortly be finalised.

The Authority's External Audit provider will review the adequacy and effectiveness of the Internal Audit service on an annual basis as part of their work on the main financial systems to place reliance on the work undertaken to inform their opinion on the Authority's annual accounts (the "managed audit" approach).

Where roles and responsibilities of other Inspectorates potentially overlap or conflict, Internal Audit will ensure there is adequate liaison and co-ordination, including as necessary, a formal 'memorandum of understanding' or protocol.

Good liaison arrangements exist between the South and West Yorkshire Authorities that ensure cooperation and the sharing of information. Should it be necessary to instigate formal and written protocols then this will be done.

6. INTERNAL AUDIT RESOURCES

6.1 Current Structure and Staffing

Changes in the profile of the work of the Internal Audit Service to incorporate more non financial based work, advice and support to management in special projects and initiatives has resulted in a number of restructures for the Service over recent years. The previous revised structure of the service addressed changes to the risk profile of the Authority, reduction in audit staff due to retirements and the savings it had been required to make as part of the Future Council process. This structure had been in existence from April 2011 / 1st July 2011.

More recently, the service has been required to reduce its budget further as a result of a Year 3 KLOE saving. In order to achieve the necessary saving levels a restructure of the Division has resulted in the reduction of one post

(Principal Auditor). In addition, 1 post remains vacant (Senior Auditor) and a further post (Audit Assistant) is temporarily vacant due to maternity leave. Discussions will shortly take place to determine if or how these vacancies will be filled given future savings requirements balanced with the need to ensure the maximisation of resources. The overall effect of these changes has resulted in a 20% reduction in the level of available resources.

An organisation structure of the Service is attached to the Strategy as Appendix 3.

The level of available resources aim to provide the statutory assurances and respond to demands on the Service. The aim is to develop the Audit team with a broad and professional skill base to audit the full range of the Authority's governance arrangements and services. This has included the development of specialists covering procurement / contracts / value for money, IT / IS, project management, schools, environmental and fraud / investigations.

The Division complies with the corporate recruitment policies and prevailing restrictions that from time to time apply regarding the recruitment of permanent staff or being allowed to advertise externally. Staffing resource issues are reported to the Audit Committee.

6.2 Use of External Providers

The Division has previously utilised the expertise from Rotherham Borough Council to provide technical IT audit support and advice. This contract expires on the 31st March 2013 and will not be renewed due to the development of skills in-house and a decrease in the number of planned audit jobs that require technical expertise. The combining of the service with the South Yorkshire Joint Secretariat audit service will provide access to a wider skill set such as IT audit expertise.

6.3 Reliance on Other Sources of Assurance

Internal Audit does not generally rely on the work of other agencies in the performance of their planned work. However, where there have been external inspections relevant to the scope and objectives of audit work, e.g. inspections or external audit reports, the results of this external work will be taken into account.

Internal Audit does work co-operatively with services within the Authority charged with performance management and the implementation of corporate policy (e.g. Human Resources or Performance and Partnerships) in order to avoid duplication of effort and to maximise the impact of compliance and monitoring work.

Internal Audit meets with the External Audit provider to ensure that their work is co-ordinated, avoids duplication and organised to best effect.

6.4 Protocols for Working with Other Bodies

Where Internal Audit needs to work with the Auditors of other organisations, protocols and joint working procedures will be drawn up and mutually agreed to establish and define relative areas of responsibility, reporting arrangements, liaison meetings, and the sharing of information.

Internal Audit will also seek to liaise with relevant functions within the Authority to ensure that corporate resources are maximised.

6.5 Equality and Diversity

In accordance with the Equality Standard in Local Government it is important that all Internal Audit staff have an appreciation of equality and diversity. Internal Audit complies with the Authority's processes and procedures set out in order to meet the requirements of the Standard. Accordingly, staff awareness training is provided. In addition, each audit assignment requires the audit team to consider any particular equality and diversity issues relevant to the nature and type of each audit assignment. A question is also included within the client feedback questionnaire regarding how effectively the Auditors dealt with and consider equality and diversity issues during the audit.

In addition, service policies and procedures are Equality Impact Assessed in accordance with the required corporate protocol.

6.6 Training and Continuing Professional Development

Internal Audit has a policy of regularly reviewing the skills needs of the Service, and identifying the training and development necessary to meet these needs in accordance with the Authority's Training and Development Policy.

For several years the Service has operated the Corporate Personal Development Review (PDR) process to identify and prioritise both individual and collective training and development needs. Accordingly, the Service has developed a strategy which demonstrates how training and development needs will be achieved.

Training needs for staff are also considered following the completion of each individual audit assignment.

The Assistant Executive Director (Audit and Risk Management) encourages audit staff to join continuing professional development schemes where provided by their particular Institute and to maintain a general awareness of the Internal Audit profession. For certain professional institutions, professions, continuing professional development is compulsory.

It is a specific priority that, even when resources are reduced, staff training and development is maximised. An allocation of 'training days' is given to each member of the service in accordance with their respective personal development plans.

7. PERFORMANCE MANAGEMENT

7.1 Corporate Performance Management

As part of service planning and performance management, Internal Audit has a suite of performance indicators which are monitored on a regular basis throughout the year.

Key indicators relating to the performance of Internal Audit are reported quarterly to the Audit Committee. (Data relating specifically to jobs undertaken under the Service Level Agreement with Berneslai Homes are reported to the Company's Audit Committee).

7.2 The Internal Audit Quality Assurance and Improvement Programme

Internal Audit has documented quality control procedures which are currently subject review as a result of the introduction of the new PSIAS.

The current QAIP:

- (i) A system of quality controls established within the Audit Management System (automated system) and Internal Audit Procedure Manual and;
- (ii) Managers undertaking sample audit checks for quality compliance.

In addition, the Accounts and Audit Regulations require an annual review of the effectiveness of the Internal Audit function. This is undertaken through the following :-

- Analysis of feedback from individual jobs;
- Analysis of feedback from an annual effectiveness questionnaire;
- Utilising External Audit's review of Internal Audit as part of the managed audit;
- A self-assessment using the checklist provided in the Code of Practice which has now been replaced with the PSIAS and;
- The results of the programme of quality assurance audits

The results of this review are reported to the Audit Committee.

7.3 Audit Management System

Key to the provision of sound and robust performance management information is the Service's audit management system. Industry developments in audit management software have enabled the Service to upgrade its software with a far more advanced system. This system has been in place for over five years and continues to be developed in order to enhance the audit management information including the automation of audit assignments.

Automation of the audit process continues to provide several benefits such as efficiency savings, compliance with the Authority's paperless office strategy and facilitate flexible working arrangements. Development of this software is

continuing in accordance with the development strategy. Accordingly, further resources will be invested, where appropriate, in the development of the audit management system.

7.4 Benchmarking

The Service will continue with Membership of the West and South Yorkshire Audit Group, an informal group comprising the Heads of Internal Audit of neighbouring local authorities. The group benchmarks audit, planning and quality processes. There are also sub-groups dealing with contracts, fraud, IT and education audit.

8. AUDIT SKILLS

The breadth and coverage within the audit plan will necessitate the following high quality audit skills, both general and specialist:

- Risk based audit
- IT / IS audit
- Procurement, contract management, commissioning audit
- Value for Money
- Project and change management
- Performance management
- Fraud investigation techniques
- Environmental audit

Equally important are the softer skills and attributes which enable a productive working relationship with audit clients to be formed. Staff will be required to develop and enhance such skills as:

- Persuading, influencing and negotiating skills
- Communication skills
- Ability to think creatively and imaginatively
- Listening and questioning skills

The previous re-structure of the Division has provided an opportunity to broaden the skills base of the function to reflect the changing demands put on the service such as the integration of contracts and procurement along with fraud investigations across all staff within the Division.

The combining of the audit service with the South Yorkshire Joint Secretariat audit service will require all staff to have an understanding of the services provide under the Joint Authority arrangements. Accordingly, training plans will include a number of days for staff to develop this understanding to facilitate more effect joint working and sharing of resources.

9. MANAGEMENT OF THE AUDIT SERVICE

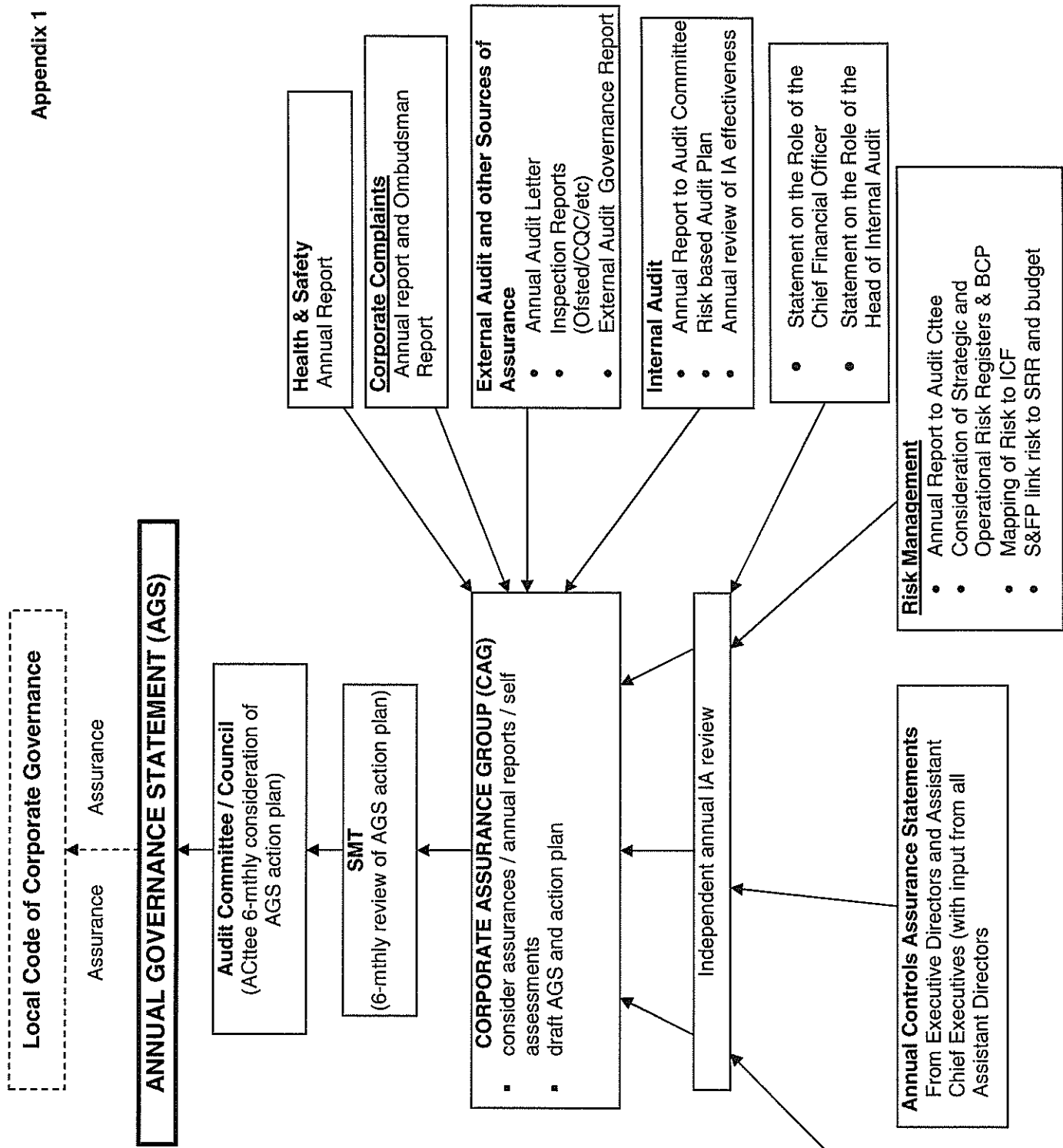
A formal service standard has been defined which has been issued to each Directorate / Department receiving audit services. This provides management with a clear statement of the service provided with a view to enhancing accountability, transparency and quality of the audit service provided.

10. APPENDICES

- 1. Matrix of Corporate Assurances in Support of the Annual Governance Statement.**
- 2. Protocol regarding the Integration of Risk Management and Internal Audit Services.**
- 3. The Structure of Internal Audit as at April 2013.**

Framework Diagram for the Authority's Annual Governance Review Process

- Internal Control Framework (ICGF)**
- Council's Corporate Plan
 - Council's Constitution
 - Contract Standing Orders
 - Scrutiny
 - Member Development
 - Complaints procedures
 - Cabinet Report Writing Guidelines
 - Audit Committee
 - Anti-Fraud & Corruption Policy / corporate Whistleblowing Policy / Prosecutions Policy
 - Medium Term Financial Strategy
 - Financial Regulations
 - Budget Monitoring Framework
 - Financial Systems Procedures
 - Treasury Management Policy
 - Corporate Debt Strategy
 - Project Management Procedures
 - Information Management & Governance Framework
 - Service & Financial Planning
 - Risk Management
 - Partnership Governance Framework
 - Equality & Diversity Policy
 - Performance Management Framework
 - Community Strategy
 - Workforce Planning Strategy
 - Human Resources Policy Framework
 - Health & Safety Policy
 - Business Continuity / Resilience Plans
 - Access to Services Strategy
 - Safeguarding



Protocol regarding the relationship between and the integration of the Risk Management and Internal Audit Functions

Purpose of the Document

The purpose of this document is to help promote effective and efficient working arrangements between Internal Audit and Risk Management in respect of audit planning with a view to reinforcing the Division's approach to risk based auditing.

Introduction

Risk based auditing has evolved in response to both the enhanced corporate governance requirements expected of organisations and the principles of modern risk management which demand that the risks relating to an organisation's ambitions and objectives be assessed and addressed. Fulfilling the achievement of this requires a shift away from traditional audit planning to an approach driven by management's view of the significant risks facing the organisation.

As part of the development of risk based auditing the Internal Audit service has the opportunity to work closely with the Risk Management Section and share information of mutual interest for the benefit of both services. This approach needs to be coordinated and understood between all staff involved. The following sets out how the Division aims to effectively address the above.

Annual Internal Audit Plan

The annual planning process will commence in October / November. As part of the development of the annual audit plan, Audit Managers will refer to such documents as the Authority's Community Strategy, Corporate Plan, Service Delivery Plans in order to gain an understanding of the organisation's ambitions, objectives and priorities.

Audit Managers will then refer to the latest versions of the strategic, operational and project risk registers available on the Risk Management system in order to identify category one and two risks:-

- The significant (key) risks
- The areas of Service Delivery giving rise to the greatest risk
- Which are the highest scoring risks
- Identify any emerging themes

As part of this process discussions will also be held with the Principal Corporate Risk Management Officer (PCRMO) to discuss the information identified from the risk registers and to obtain any further information in respect of known risks. It should be recognised that Internal Audit should focus on areas where Internal Audit can add value and therefore it is not appropriate to consider every risk identified by management. The Internal Audit Service cannot complete a full risk based audit plan due to commitments in relation to managed audits in respect of the core financial systems, requests for advice / consultancy etc. In addition, it may be appropriate to include an auditable area within the annual audit plan due to the number of years

lapsed since the previous audit. Ultimately, the Internal Audit Service aim to demonstrate that appropriate risk based coverage has been given to all Council activities and linked with themes emerging from the analysis of the risk register.

Quarterly Plans

Quarterly plans are prepared which will be shared with the PCRMO for information purposes and also to consider whether the coverage remains relevant in light of the corporate risk management arrangements.

Half Yearly Review of the Plan

Similarly, during September, the half yearly review of the whole audit plan will involve consultation with the PCRMO to provide assurances that coverage remains appropriate.

Internal Audit Coverage of Risk Management Arrangements

A key element of assurance in support of the Annual Governance Statement will be an annual audit opinion on the effectiveness of corporate risk management arrangements. For risk based auditing to be effective and provide reasonable assurance there needs to be confidence in the risk management process utilised by the Authority. This is demonstrated through an annual audit designed to provide an assessment of the status and maturity of the Authority's risk management process. This may typically cover the following:-

- The design and operation of the risk management process;
- The adequacy and effectiveness of the system of internal control in sufficiently mitigating risks;
- The monitoring and reporting on risk issues including the application of risk tolerance principles.
- An evaluation of the level of residual risk (acceptable Risk) in relation to the Authority's risk appetite.

Audit Assignment Plans

The Auditor responsible for drafting an audit preparation for a planned piece of work within the audit plan will include the PCRMO when requesting from other Audit Managers details of any known risks and / or cross cutting issues. As part of this process a copy of the scope and objectives will be attached to the e-mail sent to the Audit Managers and the PCRMO.

Each audit preparation should include a checklist prompting the Auditor to undertake a risk assessment and analytical review. As part of this process the Auditor should discuss with the operational manager their operational risks to determine how well these are being managed and whether the control environment is sufficiently robust to mitigate known risks. Issues arising may need to be covered within the audit scope. It may also be appropriate to consider whether the operational manager has recorded previously reported weaknesses within their risk register and also to

consider informing the PCRMO of known risk issues that do not appear on the Risk Register.

Where appropriate, Audit assignments should include a review of the adequacy of the risk management arrangements within the service area under review. This will include an assessment of the effectiveness of the control environment in managing the significant risks and other risks identified by management.

Audit Reports

The PCRMO will be issued with a copy of all Internal Audit reports. This will provide assurance to the PCRMO as to the adequacy of the risk management arrangements in respect of the area under review and also to provide details of the outcome of how any specific areas of risk identified at the planning stage are managed. This information will also be utilised to influence risk registers.

Risk Management Activity Plans

The PCRMO will share details of work programmes and activity plans relating to specific operational and project areas of risk on a quarterly basis throughout the course of the year and will advise Internal Audit where the results of such activity may influence the Audit Plan.

Risk Management Training

The PCRMO will continue to facilitate training for Internal Audit staff in order to enhance their understanding of the Authority's framework and process / role of risk management. This will include the responsibilities of services, individuals and risk owners along with the role of External Audit. In addition, the training will cover the Risk Management Policy, the Authority's risk 'appetite', risk reporting and links to the Annual Governance Statement and risk management system. The training also aims to enhance the Auditors understanding of how the Internal Audit Service undertakes a risk based audit approach.

Audit and Risk Management Structure

Appendix 3

AED	1 post	1 FTE
Internal Audit	13 posts	12 FTEs
Risk Management	2 posts	2 FTEs
General Corp. Governance	1 post	1 FTE
Total	17 posts	16 FTEs

