



AUDIT COMMITTEE – 26th March 2014

INTERNAL AUDIT CHARTER AND STRATEGY - REVISED MARCH 2014

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 provide the assurances the Committee receive from Internal Audit.**

3. Background

- 3.1 The update of the current Charter and Strategy has considered the requirements of the Public Sector Internal Audit Standards which became effective from the 1st April 2013.
- 3.2 The Charter and Strategy, prepared by the HoIA and complemented 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 responsibilities.

4. The Charter and Strategy

- 4.1 The Audit Committee considers the Charter and Strategy documents annually and last did so at the March 2013 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 employees through the Service's Intranet site.
- 4.3 The Strategy has been changed most notably to highlight the changes arising from the increase in the client base and the integration of the Joint Secretariat Internal Audit Service with BMBC Internal Audit Service and the impact on the scope and breadth of audit coverage. In addition, the changes reflect the key risk areas in respect of the efficiency drive / Future Council arrangements and the significant change programme for the Council.

4.4 The Internal Audit Team (including Risk Management and Governance) now provide services to the South Yorkshire Police Crime Commissioner, South Yorkshire Police Chief Constable, South Yorkshire Fire and Rescue Authority, South Yorkshire Pensions Authority, the new Combined Authority (ex SYITA) as well as BMBC along with Berneslai Homes.

4.5 The key changes are summarised as follows:

- i. The Strategy reinforces the objective of the service as a valuable asset to the Authority and its other clients by supporting senior management in meeting their responsibilities and the delivery of corporate objectives
- ii. The Strategy addresses how the Internal Audit Service will be delivered given available limited resources and the changes to the risk profile of the Authority and client organisations along with the requirement of the Authority (and other organisations) to remain 'safe' throughout an period of unprecedented change.
- iii. The Strategy explains the basis of the development of audit work aimed at supporting the various initiatives each organisation is undertaking to meet significant financial pressure and organisational change.
- iv. The development of specialism's to facilitate the delivery of themed type audits across the broad client base.
- v. Explains the changing technical and non technical skills required of the audit team. In particular, in respect of the increase in number of Council and other services delivered by a third party resulting in potentially fragmented governance arrangements.
- vi. Due to the restructure of the Finance, Property and Information Services Directorate effective from 1st April 2014, the position of Assistant Director (Audit & Risk Management) will be replaced by a Head of Internal Audit post. The Strategy reflects this change in designation and changed structural position.

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.

5. Local Area Implications

5.1 There are no Local Area Implications arising from this report.

6. Consultations

6.1 Key officers within each of the client organisations utilising the Internal Audit Service have been consulted on the content of the Charter and Strategy.

7. Compatibility with European Convention on Human Rights

- 7.1 In the conduct of audit work and investigations particularly, Internal Audit operates under the provisions of the Data Protection Act 1998, the Regulation of Investigatory Powers Act 2000 and the Police and Criminal Evidence Act.

8. Reduction of Crime and Disorder

- 8.1 An inherent aspect of audit work is to prevent, detect and investigate incidents of fraud, theft and corruption. The control issues arising from audit investigations have been considered to ensure improvements in overall controls are made. Additionally, Internal Audit ensures that in specific instances, management takes appropriate action to minimise the risks of fraud and corruption re-occurring.

9. Risk Management Considerations

- 9.1 The underlying purpose of the work of Internal Audit is to address and advise on key risks facing management and, as such, risk issues are inherent in the body of the report.

- 9.2 The Division's operational risk register includes the following risks which are relevant to this report:

- Inappropriate use of and management of, information to inform and direct service activities;
- Inability to provide a flexible, high performing and innovative service; and
- Poor levels of customer satisfaction.

All of these risks have been assessed and remain within the tolerance of the Division.

An essential element of the control and on-going management of these risks is the provision of an effective Internal Audit Service. The Charter and Strategy provides a framework for the conduct of the internal audit function in providing a quality support function to management.

10. Employee Implications

- 10.1 There are no employee implications arising from this report.

11. Financial Implications

- 11.1 The costs of the Internal Audit function are included within the Authority's base budget. The services provided to client organisations are paid for under the terms of a Service Level Agreement.

12. Appendices

12.1 Appendix 1 - Internal Audit Charter and Strategy 2014/15

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BARNESLEY M.B.C.

INTERNAL AUDIT AND RISK MANAGEMENT SERVICES

INTERNAL AUDIT CHARTER AND STRATEGY

2014/15

The Internal Audit and Risk Management Service provides services to a broad range of clients. The term 'organisation' is therefore used in the Charter and Strategy to cover all clients both individually and collectively. Where a service is provided to a particular client then this is specifically described.

For the purposes of Internal Audit activity, the term 'board' refers to the appropriate Audit Committee. The term 'senior management' refers to the Chief Executive and most senior directors or equivalent e.g. the Chief Constable and Senior Command Team; the Chief Fire Officer and Executive Team; or the Chief Executive and Senior Management Team.

The PSIAS refer to the officer responsible for the Internal Audit function as the Chief Audit Executive. This role is undertaken by the Head of Internal Audit (HoIA).

INTERNAL AUDIT CHARTER

1. Introduction

The Internal Audit Service is a key component of an organisation's governance framework. As such the Service aims to provide a quality management support function in order to influence and contribute to the achievement of strategic objectives. A key component of this support is the development of excellent client relationships and adopting an innovative and flexible approach to the delivery of the service.

This Charter provides the framework for the conduct of the Internal Audit function and is applicable to all client organisations. This Charter will be reviewed at least annually by the relevant Audit Committee, or their equivalent to ensure it remains relevant to the demands and responsibilities of the Service and supports the relevant organisation's corporate objectives. Any substantive changes will be formally approved by the appropriate 'Chief Executive' on the recommendation of the Audit Committee.

Each client organisation 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 on whether effective and efficient arrangements exist. The annual HoIA opinion, which informs the annual governance statement, both emphasises and reflects upon the importance of this aspect of Internal Audit work. The response to Internal Audit activity should lead to the strengthening of the control environment and therefore contribute to the achievement of the corporate objectives, improvement and the need for innovation and change.

Vital components of a successful Internal Audit (Risk Management and Governance) service include effective working relationships and working in partnership with management to improve the control environment. The Internal Audit service embraces this approach by effective communication and regular contact with its clients in order to help the organisation achieve its objectives.

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 its client 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 functions Delivery Plan process.

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. An important element of these standards is the requirement to have a formal Charter.

3. Definition of Internal Audit

The PSIAS provides the following 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 organisation's require 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:

- develop and enhance relationships particularly where a client organisation is undergoing significant change to ensure that the service is aware of and understands 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 being aware of the relevant national agenda and its impact
- be innovative and challenging
- help to shape the ethics and standards of the organisation, reducing bureaucracy whilst maintaining good governance
- 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.

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 organisation's governance, risk management, and internal control processes as well as the quality of performance in carrying out assigned responsibilities to achieve the objectives of the organisation.

5. Responsibilities and Objectives of Internal Audit

The responsibilities and objectives of Internal Audit are as follows:

- i. To be a valuable asset to the organisation by supporting 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 Statutory S151 Officer / Client Financial Officer in discharging their duties.
- iv. To review, appraise and report on the extent to which the assets and interests of the organisation are accounted for and safeguarded from loss and the suitability and reliability of financial and other management data and information.
- v. To support the requirement to seek efficiency 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 ethical behaviour.
- vii. To assess the adequacy and effectiveness of the organisation's contracts, procurement and associated 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 adopt management responsibilities for managing risks.
- ix. To evaluate the risk of fraud and the manner in which it is managed by the organisation. In addition, to reduce 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, risk and governance.
- xi. To provide an Internal Audit advisory service intended to add value and improve 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 / functions / departments. Such advice and consultation work forms an increasingly significant part of the audit plan.
- xiii. To prepare timely, concise and informative reports to management to facilitate the improvement of the control environment.
- xiv. 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 having oversight of the audit function.

6. 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 's151 officer'; the Chair of the Audit Committee and Audit Committee Members; individual Senior Management Officers; employees and the responsible External Auditor.
- The HoIA reporting in his own name.
- Segregation from line operations.

The HoIA has authority and operational responsibility for the Risk Management service for Barnsley MBC and input into certain governance functions i.e. AGS. When audits are required of these areas, the Senior Audit Manager reports direct to the s151 officer. 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 perceived 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 seen 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 confidentiality 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 organisation.

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.
- iii. observe the Standards of Public Life's Seven Principles of Public Life.

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. conform with the PSIAS. NB: Any non-conformance with the PSIAS will be disclosed within the engagement results / output including the reasons for the non-conformance and the impact.

7. Accountability, Reporting Lines and Relationships of the HoIA

Accountability:

In relation to organisations governed by public sector legislation, (e.g. the Accounts and Audit Regulations 2011, Regulation 6 and Police Reform and the Social Responsibility Act 2011), requires that such organisations are responsible for maintaining an adequate and effective Internal Audit function. Regulation 4 of these Regulations requires at least annually, a review should be conducted of the effectiveness of the system of internal control.

Reporting Lines and Relationships:

Within Barnsley MBC as the direct employing organisation, the HoIA reports administratively to the Director of Finance, Property & Information Services and has strategic and operational responsibility for the Internal Audit function and fulfills the specific role of the HoIA.

Within each client organisation the HoIA will be responsible to a designated senior manager (chief financial officer or chief executive). This will be reflected within each Service Level Agreement (SLA).

While audit plans are considered by a range of senior managers and the Audit Committee, the professional responsibility for Internal Audit coverage rests with the HoIA who may determine and change the Internal Audit Service's own priorities as appropriate. The HoIA has a functional reporting line to the Chair of the Audit Committee, the 'Chief Executive' and SMT Members, or equivalent.

The HoIA reports periodically to the Audit Committee. The reports provide information in respect of:

- i. Periodic reports detailing: the audits completed; an assurance opinion on the overall state of internal controls for that particular period along with any fundamental issues requiring management attention based on the work of internal audit; progress in implementing the strategy and audit work plan; the status of the implementation of agreed internal audit recommendations;
- ii. an annual report 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 periodic reports and;
- iii. an annual report summarising the outcome of the review of the effectiveness of the internal audit function which is required under the Accounts and Audit Regulations 2011 paragraph 6(3).

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. Similarly the function will coordinate its activities with other regulatory / inspection bodies e.g., the Professional Standards Committee.

It is important to stress 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.

Where it is appropriate Internal Audit will liaise with other internal functions or inspectorate, to ensure work is co-ordinated, mutually beneficial and where applicable utilised for assurance purposes (e.g. HMIC).

8. Arrangements for Anti Fraud and Anti Corruption

Arrangements are set out within the organisation's anti fraud and corruption and supporting policies and guidance. The HoIA should 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 organisation's anti-fraud, Whistleblowing, Money Laundering, bribery and corruption policies, Internal Audit prepares periodic guidance for managers and the Board;
- ii. To undertake proactive fraud detection work in high risk areas as defined by the risk management process;
- iii. To co-ordinate Barnsley MBC's, Fire and Pensions response to the mandatory National Fraud Initiative (NFI) exercise;
- iv. To contribute to 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

In accordance with the PSIAS, the scope of Internal Audit allows that in fulfilment of audit responsibilities unrestricted coverage of all the organisation's activities and unrestricted access to all functions, records, data, personnel, premises and assets of the organisation and its partner organisations, 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 will include the impact of any resource limitations and significant actual or planned 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 to the Audit Committee through periodic activity reports.

11. Client Organisations

The Internal Audit Service provides an internal audit function to the following clients. An approximate number of planned days allocated to each of these client organisations is shown below.

Client Organisation	Approximate Allocation of Planned Days *
Barnsley MBC (including Risk Management)	Approx.. 2,400
South Yorkshire Police Chief Constable	Approx. 450
South Yorkshire Police & Crime Commissioner	Approx. 200
South Yorkshire Fire and Rescue Authority	Approx. 280
South Yorkshire Pensions Authority	Approx. 280
Combined Authority (Barnsley, Doncaster, Rotherham & Sheffield)	Approx. 50
Berneslai Homes: Work undertaken for Barnsley MBC'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 third time during 2013 and extended the SLA 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 Council which remains the ultimate landlord and responsible for the housing revenue account.	Approx. 130
Academies: The function 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 existing client organisations.	To be agreed

* Internal Audit plans are currently being finalised.

Other Bodies:

The Internal Audit service will seek to expand the service by exploring opportunities for market testing its services, where there is a clear benefit in terms of operational synergies, economies of scale, service continuity and staff development. Consideration will always be given to ensure continuity and quality of service to existing clients.

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 its clients, while maintaining professional standards and demonstrating efficiency, effectiveness and value for money.
- 1.2 The Strategy also describes 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.

2. INTERNAL CONTROLS ASSURANCE

2.1 Annual Governance Statement (AGS)

Regulation 4 of the Accounts and Audit Regulations 2011 states the responsibility of the organisation 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 effectiveness of its system of internal control is reviewed at least annually, and include a statement alongside 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 the Audit Committee 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. One of the key sources of assurance is derived from the contribution made by Internal Audit. This contribution principally comprises:-

- An annual risk based and comprehensive Internal Audit plan which focuses on evaluating and improving the effectiveness of risk management, control and governance processes.
- 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 senior management.
- Where appropriate, 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 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.

3.2 Interaction with Corporate Risk Management Arrangements

In accordance with the principles of RBA, 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 organisation. To achieve this objective, Internal Audit will consider the organisation's strategic planning information. 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 of the organisation and utilisation of the risk register information.

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.

Internal Audit's ability to adopt a risk based approach is very much reliant on the status and maturity of the organisation's risk management processes. This planning process takes into account the balance required between allocating audit resources to areas of significant risk, maintaining sufficient provision to support key initiatives, main financial 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 organisation. This is demonstrated through audit coverage designed to provide an assessment of the status and maturity of the organisation's risk management process. This provides an opinion/assurance on the following:-

- The organisation's objectives support and align with the organisation's mission;
- Significant risks are identified and assessed;

- Appropriate risk responses are selected that align risk with the organisation's appetite; and
- Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the Audit Committee to carry out their responsibilities.

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, as articulated within the organisation's strategic plans and ensuring that audit coverage is directed towards these areas of corporate importance.
- Identification of the significant (key) risks arising from the above and understanding which areas of service delivery the significant risks impact upon.
- Internal Audit provides support to management and direct resources to areas where the Service can add value and support change and innovation.

The Internal Audit Plan includes a proportion of days for "standard" audit work such as main financial 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 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. This work is primarily undertaken on behalf of the s151 officer in support of their statutory responsibilities.

External Audit seeks to place reliance on the work of Internal Audit in order to support their opinion on the accounts. More recently, External Audit coverage of main financial systems has decreased and the approach is based on an annual risk assessment which determines the system/s where reliance is required. The decrease in External Audit activity in relation to the organisation's main financial systems may necessitate extending the scope of financial systems work undertaken by Internal Audit in support of the s151 officer.

In accordance with the risk based approach, the audit of the main financial systems is reviewed each year and revised accordingly in agreement with the s151 Officer and External Auditor.

4.2 Change and Innovation / Efficiency Drive / Savings

In support of change and innovation, Internal Audit will dedicate resources in order to independently assess the effectiveness of associated initiatives and change programmes in relation to the impact on internal controls, risk and governance arrangements. Emphasis is placed on the organisation remaining 'safe' throughout a period of significant change to its risk profile.

4.3 Systems Development Work

Internal Audit continues wherever possible to adopt a proactive approach to an organisation's change programme and the development of significant new or changed systems. 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 organisation'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 revised and developed, reflecting as necessary changes in legislation, guidance and technology.

4.6 Corporate Issues and Projects

Internal Audit will seek to be involved in significant projects, in a non-executive advisory capacity. Examples include change programmes, service redesign due to staffing reductions, integration of systems.

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

4.7 Non Financial Audit and Advisory Services

A significant part of Internal Audit work relates to responding to unplanned work from senior management arising during the year. This unplanned work tends to

be support to initiatives, projects and changes in priorities and also has a generally less financial perspective. Internal Audit will always seek to preserve flexibility to provide such support.

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

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

4.8 Fraud Prevention and Investigations

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, whether it be of a financial nature or not.

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

- Provision of fraud awareness training for managers and Members (where applicable) highlighting responsibilities for the prevention and detection of irregularities;
- Bulletins or alerts 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. These 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 in conjunction with management improved management information interrogation facilities in order to detect fraud. The

Service will also co-ordinate the organisation's response to the statutory National Fraud Initiative (NFI) exercise, where applicable

Internal Audit has dedicated resources for fraud and irregularity work. Investigatory work sometimes requires resources from the wider team. 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, 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 Executive Officers along with Statutory Officers. The Chief Executive or equivalent 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 reported formally to the respective Audit Committee.

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 and the 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. 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 where applicable, the Risk Management service will receive a copy of all audit reports. Information is utilised for the purpose of enhancing the Risk Management process.

A process has been 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. The Service follows-up all fundamental and significant recommendations (including merits attention recommendations for the main financial system audits). The results of this work are reported to the Audit Committee.

In order to proactively engage and support services, approximately four weeks prior to the presentation of the Audit Committee Report, details of outstanding report recommendations are issued to the responsible senior officers. This follow-up and reporting procedure to the Audit Committee raises 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 respective 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 :-

- Details of audit plans, performance against plans and against key performance measures, and on significant control or compliance issues arising from audit work, longstanding recommendations and management responses, completed projects / advice, unplanned, cancelled or deferred audit work.

- To client Audit Committee's on performance against the Service Level Agreement, or equivalent, and on individual audit reports.
- 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 Committee.
- The Audit Committee receives an annual report summarising the outcome of the review of the effectiveness of the internal audit function which is required under the Accounts and Audit Regulations 2011 paragraph 6(3).

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 organisation'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:-

- The HoIA's opinion on the overall effectiveness of the organisation'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 HoIA 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).
- 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 client.

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

The Internal Audit service will have an area of each organisation's intranet to provide general information about the function, contact details, useful documents and reference material with a view to ensuring that clients understand the Internal Audit function. The Intranet site will be subject to continuous review, update and development. In addition, proactive meetings are held with key officers to promote greater understanding of the purpose and function of Internal Audit.

5.7 External Audit Provider, Other Inspectorates or Auditors

The HoIA 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 exists setting out the joint working arrangements.

The Authority's External Audit provider will place reliance on the main financial systems work undertaken to inform their opinion on the Authority's annual accounts.

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 Internal Audit departments across South and West Yorkshire and the region ensures 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

Due to significant financial pressure the Service has been required to reduce its budget by over 25% over the last 3 years.

The budget setting and service delivery process will take into account the financial requirements of each client organisation and seek to ensure there remains an effective structure and overall level of resource.

The overall impact of the budget changes will be closely monitored.

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

Staffing resource issues are reported to the respective Audit Committee.

The current structure of the Division is as follows:-

Head of Internal Audit
Senior Audit Manager
2 Audit Managers
5 Principal Auditors
6 Senior Auditors
3 Auditors
2 Assistant Auditors

Principal Corporate Risk Management Officer
Corporate Risk Management Officer

6.2 Use of External Providers

Provision is made to enable the buying-in of specialist audit resources where a gap is identified or additional demand needs to be met.

6.3 Reliance on Other Sources of Assurance

Internal Audit will, where appropriate, utilise and rely upon other sources of assurances to inform the audit opinion. For example, 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 charged with performance management and the implementation of corporate policy (e.g. Human Resources or Performance or Business Change Functions) 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 client organisation 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. 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 its Training and Development Strategy.

For several years the Service has operated a 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.

Given a reduction in the overall level of available resource, a specific priority has been to develop a professional training programme for staff. The overall aim is to ensure that each member of staff possess a relevant recognised qualification. The professional training programme will be a priority for the Service throughout 2014/15 and as such the allocation of 'training days' will be increased in accordance with personal development plans.

Future training and development will take into account the diverse client base the Service now has. Opportunities to utilise client training programmes will also be explored to maximise resources and ensure Internal Audit staff stay up to date with service developments etc.

7. PERFORMANCE MANAGEMENT

7.1 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 to the respective Audit Committee.

7.2 Internal Audit Quality Assurance and Improvement Programme (QAIP)

A QAIP is in place which covers all aspects of the internal audit activity. The QAIP is designed to assess the efficiency and effectiveness of the internal audit function and identify opportunities for improvement. The QAIP comprises:

- (i) A procedure manual which is currently subject to review as a result of the introduction of the new PSIAS.
- (ii) All audit work is allocated to staff with the appropriate skills, experience and competence.
- (iii) A system of quality controls established within the Audit Management System (automated system) to ensure that key checks are undertaken and correct processes are followed.
- (iv) Managers undertaking sample audit checks for quality compliance.
- (v) Analysis of client feedback from individual jobs.
- (vi) Analysis of client feedback from an annual effectiveness questionnaire.
- (vii) Whether External Audit can place reliance on the Internal Audit function as part of their work on the main financial systems.
- (viii) Use of performance indicator information.

Internal Assessments:

In accordance with the PSIAS the Internal Audit Service undertakes an internal assessment on an annual basis. The results of this assessment are presented to the organisation's Audit Committee as part of the annual review of the effectiveness of the function which is a requirement of the Accounts and Audit Regulations 2011.

External Assessments:

In accordance with the PSIAS an independent external review will be undertaken at least every 5 years. The Audit Committee will approve the Terms of Reference for this assessment.

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 a number of years and continues to be developed in order to enhance audit management information including the automation of audit assignments.

Automation of the audit process continues to provide several benefits such as efficiency savings 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. The Service also participates in the CIPFA benchmarking service.

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
- Procurement, contract management, commissioning audit
- IT / IS audit
- Project and change management
- Performance management
- Fraud investigation techniques

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 Service 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 Service.

The combining of the audit service with the South Yorkshire Joint Secretariat Internal Audit Service has required all staff to develop an understanding of the services provided under the Joint Authority arrangements. Accordingly, training plans include a number of days for staff to further develop this understanding to facilitate more effective joint working.

A professional training programme has been approved which will further enhance the skills of Internal Auditors in relation to Internal Audit and business risks.

9. MANAGEMENT OF THE AUDIT SERVICE

A formal service standard has been issued to each client organisation 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.

