

Name of meeting: Corporate Governance & Audit Committee
Date: 22nd April 2021

Title of report: Annual Report of Internal Audit 2020/21 & Issues for 2021/22
Purpose of report; To provide information about Internal Audit activity and the effectiveness of the system of internal control, and conclusions on the control environment and assurance provided in 2020/21, and on matters that relate to Internal Audit activity in 2021/22

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Not applicable
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports) ?	Not applicable
The Decision - Is it eligible for "call in" by Scrutiny?	Not applicable
Date signed off by Director & name Is it also signed off by the Service Director for Finance?	Not applicable
Is it also signed off by the Service Director for Legal, Governance & Commissioning?	Not applicable
Cabinet member portfolio	Not applicable

Electoral wards affected: All
Ward councillors consulted: Not applicable
Have you considered GDPR; Yes
Public

1. Summary

- 1.1 This report provides information about Internal Audit activity in the year to 31st March 2021 and notes the outcome of the annual review of the effectiveness of the Council's system of internal control. It provides an "opinion" on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control, and advises as regards compliance with the requirements of the Public Sector Internal Audit Standards (PSIAS) and Code of Ethics.
- 1.2 The report provides an Audit Plan for 2021/22 and indicates potential priorities for the year and a draft 2021/22 Audit Charter.

2. Information required to take a decision

- 2.1 The year 2020/21 was not standard in many respects. The extent of "routine" internal audit assurance work was significantly curtailed as described in more detail in the report below.

- 2.2 Nevertheless, based on an objective assessment of the Council's framework of governance, risk management and control it is concluded that overall, the Council has sound arrangements to operate its business effectively.
- 2.3 This is however based on limited coverage of planned audit activity during the year, and from some unplanned work which assists in ascertaining assurance, and is formed in part in the absence of any knowledge of material adverse issues raised or identified in respect of other areas of operation.
- 2.4 The opinion is based on the operations of Kirklees Council, and its wholly owned subsidiary Kirklees Neighbourhood Housing Ltd. This Committee takes responsibility as Audit Committee for both organisations.
- 2.5 The substantially reduced internal audit routine activity has concentrated on areas of operation where there are higher material risks- such as by volume and value of financial transactions, and by reference to work in recent years, where operations, as far as are practical have not been materially changed during 2020/21. The integrated financial systems which have proved robust and have been practically operated remotely "as normal", also help in reaching this positive assurance assertion. Assurance statements, as to the extent of declared changes in practice from "normal" have been obtained, and these have not revealed any significant variations.
- 2.6 However there are several observations and qualifications which are highlighted in the report which should be addressed.
- 2.7 This Committee also needs to review, and indicate that it is content as regards, the effectiveness of the system of internal control. The attached report contains material intended to assist the Committee in reaching a decision.
- 2.8 The report notes that following the external assessment undertaken at the end of the 2017/18 year (which attributed the operation with the highest standard which is "generally conforms"), assessment against the Public Sector Internal Audit Standards (PSIAS) and Code of Ethics has been undertaken this year internally by the Head of Risk as Head of Internal Audit. The assessment has been undertaken against the CIPFA recommended assessment criteria, and the outcomes from this assessment are included in the report.
- 2.9 Each year the Committee needs to consider and approve an Internal Audit Strategy & Charter. A proposed 2021/22 version is attached. (Those of any significance are shown by "track change")
- 2.10 A draft Audit Plan for 2021/22 is included within the papers. This audit plan was the subject of consultation with Kirklees Strategic and Service Directors although there was not significant comment or feedback. It reflects the practicality that what was normal in the years up to 2019/20 will not return, certainly not in 2021/22, and possibly never. For a large part of 2021/22 the operations and ability to engage the audit process will be restricted, by a combination of government requirements, and the councils practices; Even assuming that "normality" returns later in the year, decisions in relation to the way which the council operates administratively- for example working from home- will change the way that audit work can be delivered, will require changes in our approach and in the interaction with clients- some of this requires changes to financial procedure rules- proposed for 2021/22. It also probably means that work will take longer, impacting on overall achievement within any set of resources.
- 2.11 The possibility of the need to react to changing events also needs to be recognised suggesting a cautious approach to planned work, and a substantial

amount of contingency, providing opportunities to divert resources to control and assurance-based work across the organisation.

- 2.12 This Committee may need in the future to consider if they are happy with the level of assurance that is available, or to seek additional resources to gain satisfaction in relation to the control environment.[A small amount of additional budget was allocated for Internal audit in the 2021/22 budget round, although this may not be enough]

3. Implications for the Council

- 3.1 **Working with People** – None directly
3.2 **Working with Partners** – None directly
3.3 **Place Based Working** – None directly
3.4 **Improving outcomes for children**– None directly
3.5 **Climate change and air quality- None directly**
3.6 **Other (e.g., Legal/Financial or Human Resources)-** Although each of the sub-categorisations above suggest no direct implications, the work of internal audit covers all aspects of the Council's operations, including elements of the above, either specifically, indirectly or on a commissioned basis. The main issues relate to those areas highlighted above - where there are risks associated with basic processing arrangements and delivering sound governance and control.

4. Consultees and their opinions

- 4.1 Not applicable, although very senior managers have been consulted individually on the draft plan.

5. Next steps & Timelines

- 5.1 This report informs the preparation of the Annual Governance Statement for 2020/21.
5.2 Audit activity in 2021/22 will concentrate on major areas of risk and control, based on a prioritised risk assessment. Resources will remain available to investigate significant areas of concern on a reactive basis.

6. Officer recommendations and reasons

The Committee is asked to confirm it is content with the:

- (a) Effectiveness of its internal audit function, and to note its conformance with Public Sector Internal Audit Standards and Code of Ethics
- (b) Effectiveness of the Council's overall system of internal control
- (c) Effectiveness of the broader control environment, risk management and governance arrangements of the Council (subject to the observations contained within the report).
- (d) 2021/22 Internal Audit Strategy and Charter and approve this document
- (e) Proposed Audit Plans for 2021/22; and
- (f) Give authority for the Head of Internal Audit to vary the proposed audit plan as is considered necessary, subject to reporting back as a part of the quarterly review process

7. Cabinet portfolio holder recommendation

Not applicable.

8. Contact officer

Martin Dearnley, Head of Risk 01484 221000 (73672)

9. Background Papers and History of Decisions

The Annual Report of Internal Audit 2020/21 is attached.

10. Service Director responsible

Not applicable.

KIRKLEES COUNCIL

CORPORATE SERVICES: RISK SERVICE

INTERNAL AUDIT

ANNUAL REPORT OF INTERNAL AUDIT 2020/21 & ISSUES FOR 2021/22

1. Introduction

- 1.1 This report assesses the adequacy and effectiveness of the Council's governance, risk management and control environment arrangements during 2020/21 and provides a summary of the activities and performance of Internal Audit during the year. The report also recommends a risk-based Audit Plan for 2021/22 and discusses other issues that relate to that year.

2. About Internal Audit

- 2.1 The scope of Internal Audit's activity is established by the Council's Financial Procedure Rules and the Internal Audit Strategy and Charter. These rules include a right for Internal Audit to have free and unrestricted access to carry out work as is considered appropriate by the Head of Internal Audit (the Head of Risk).
- 2.2 Internal Audit reviews the Council's assurance framework for governance, risk management and business systems and controls. Some assurance is obtained through the work of other agencies - such as the councils Health and Safety team.

Internal Audit time is spent.

- (a) Assessing arrangements for financial control.
 - (b) Assessing arrangements for other business and organisational controls – such as IT.
 - (c) Investigating allegations that the Council's business activities may not be operating in the ways intended.
 - (d) On work related to contracting strategy and contractor appraisals.
 - (e) To a very limited extent on value for money.
 - (f) Resolving a range of finance and control related issues (the most significant of which are reported in the Quarterly Reports).
 - (g) On aspects of fraud prevention - such as the biennial National Fraud Initiative (although customer fraud is currently investigated by others).
 - (h) Contributing generally and providing advice to Council wide and Service specific matters related to governance, risk, financial and business control.
- Whilst Internal Audit work can provide some assurance about business processes, it is not resourced in a way to assess the judgement of other professionals.

- 2.3 Quarterly Reports on the activities of Internal Audit have been provided to the Corporate Governance and Audit Committee. These reports provide
- (i) an opinion about the level of assurance that can be taken from each planned audit on the arrangements in operation at the time of each audit.
 - (ii) an opinion about follow-up of earlier Internal Audit work.
 - (iii) information about investigations, and other internal audit activity.
- Implementation of the agreed recommendations should provide a satisfactory degree of control in all cases.
- 2.4 These reports during 2020/21 reflected an inability to deliver the normal volume of work. They have however included some additional information to assist in assessment of the control environment, and risk and governance arrangements.

3. **Summary of Audit Work in 2020/21**

3.1 Most audit work concludes with an assurance-based opinion,

ASSURANCE >		Substantial	Adequate	Limited	None
ACTIVITY					
Core Financial Systems & Arrangements		28%	36%	36%	0%
Other Financial & Business Controls		33%	17%	50%	0%
Schools		75%	25%	0%	0%
OVERALL ASSURANCE		45%	26%	29%	0%
Positive assurance		71%			
Negative assurance					29%

3.2 29 % of work concluded with an adverse opinion against a corporate target of 20%. This was 18% in 2019/20 and 22% in 2018/19. The concentration on core areas may have reflected on the opinion, although conversely, the remote working approach may also mean that some sample checking has been reduced and other assessments that have been routine have not been done.

3.3 There were some areas of significant operation about which only limited assurance could be provided this year. These included certain aspects (but not all):

- Accounts payable
- Procurement

There were also concerns about other areas where there were issues, including

- Taxi Licencing
- Grounds Maintenance,

And at follow up stage areas including

- Direct payments (for adult or childrens social care)
- Asbestos Management

3.4 The “unusual” nature of 2020/21 meant that a very substantial amount of normal audit time was spent on assisting with oversight and control of the governments business rates-based grant schemes- which has consumed about one quarter of

all internal audit resources during the year. A smaller amount of time was also spent on other administrative tasks, which were an organisational priority, when IA work was difficult to achieve. In addition, overall productivity was affected by the operational methods of the council- such as a default position of working from home- impacting on both the auditor and auditee, and an inability to deliver some routine work- such as school financial audits, though the normal methods- visiting the site- or at all (a limited number of school audits have been carried out- in a way time consuming to both the audit client and us as provider- remotely) (see also 3.17)

3.5 There were a small number of investigations reported during the year, detailed in the quarterly reports, including into allegations about food safety, management of housing tenancies, some planning related issues, and a substantial piece about the approach to various aspects of environmental enforcement. There was also some assurance/verification work around implementation of some covid related operational policies and practices.

3.6 Audit time has also been spent on routine projects and activities such as:

- Support to governance and control arrangements generally.
- Preparation of the Annual Governance Statement and monitoring progress in relation to matters identified.
- Monitoring and updating Contract Procedure Rules (CPRs) and Financial Procedure Rules (FPRs).
- Financial appraisal and scoring of applicants for contracts and other aspects of assessing or approving the Council's contractual arrangements.
- Support to the Information Governance Board, and implementation of GDPR /Data Protection Act
- Forming a part of the Whistleblowing assessment process by carrying out initial assessment of whistleblowing to decide on the extent to which an allegation may have sufficient merit to justify further investigation.
- Verification/certification relating to grants, such as Highways Incentive Funds.
- Support to corporate projects (such as waste management, housing strategy)
- Assessing write off arrangements/testing proposed debt write-offs.
- Monthly pay project
- Troubled Families grant analysis
- SAP control updates

And on coronavirus related activity

- Oversight of the government business rate grant schemes (several)
- Controls as a part of these schemes (e.g., validity verification)
- Some processing and assessment
- Assessment of more general business control arrangements
- Certification, or assistance, in relation to some coronavirus grant claims by the council

3.7 Although the Council has kept in place its core control arrangements, there are some concerns about some activities that have taken place during the year. The governments very major grant schemes have been operated within the rules established by government; in the early phases of these grants the level of

permissible controls were lacking, although more recent versions of support, with greater targeting, have come with a more robust regime. The council has taken steps within the scheme parameters to prevent or detect fraud and inappropriate behaviour; in a small number of cases grants have been withheld; in a very small number of cases investigations are progressing with a view to prosecution. It is also possible that due to an asserted inability to carry out verification checks, some right to buy disposals have progressed without appropriate due diligence.

- 3.8 In some instances, grants provided by the council using its own or government assistance funds have been provided on an urgent basis; the circumstances leading to such grants often meant that usual upfront verification was not possible. This is understandable. Harder to justify is an absence of post implementation monitoring, including in the use of the funds. On the basis of urgency several grants and contracts have been proposed on a sole supplier basis, where there was no open competition, or clear grant scheme, but where it was thought appropriate to fund, sometimes extensive, projects without the usual controls. Not all of these have gone ahead; whilst the unusual circumstances of 2020/21 cannot be ignored, it is important for the council to ensure that its normally robust arrangements for procurement, project and financial control are not regularly or routinely ignored or substituted by processes that may not be fair and open. There are other minor control issues that have been indicated in the quarterly reports.
- 3.9 Further progress has been made on implementing the Risk Management Statement. Whilst some of the directorate and service-based information remains of variable quality, and is still not routinely updated, a more structured approach to Risk Panel meetings and assessments has been followed, and reporting was improved during much of 2020/21, and whilst the final reporting on to Leadership Management Team was not consistent, regular interaction has taken place with corporate scrutiny processes. The Corporate Risk Matrix, which lists the “fairly stable” set of risks and threats to the organisation, was amended somewhat to reflect the pandemic, although many of the broad themes of the matrix remained constant. In the absence of full cross council engagement, and as the service matrix system still cannot be relied upon as the core source of the quarterly reporting of emerging risks and threats, separate information collection from directors, the risk panel, and various sources, remains key to risk reporting and assessment. Good practice expects that any Internal Audit planning will recognise the risk management processes of the organisation. However, where risk management arrangements do not provide an assured picture, audit planning is adjusted to recognise this.
- 3.10 Although the Council used a risk-based audit plan in achieving the coverage of business and activity areas on which this opinion is based, the assurance framework delivered by Internal Audit is necessarily not comprehensive. Whilst coverage of financial (and commercial) business process and governance is risk based, it does not assess the areas that involve professional judgement, particularly in relation to care related services and some other assessments that relate to individual needs.

- 3.11 The Corporate Governance & Audit Committee can gain wider governance assurance from some other sources, (E.g., health & safety, information governance and corporate complaints/ombudsman) although this could perhaps be more structured and extensive.(e.g. Ofsted, CQC reports)
- 3.12 From April 2019, the audit work that relates to the housing and construction management organisation Kirklees Neighbourhood Housing Ltd (a wholly owned subsidiary of the council) was fully integrated into the planning and audit delivery and reporting structures of the Council. This arrangement has continued in 2020/21, with the same constraints as has applied to the council due to the unusual circumstances of the year. KNH operations transferred back to the council from 1st April 2021.
- 3.13 Work continues to be performed for Kirklees Active Leisure(KAL). Outcomes are reported to KAL's own Audit Committee. Audit work is also carried out for West Yorkshire Fire & Rescue Service (WYFRS), who make substantial use of Kirklees financial systems., WYFRS has its own Audit Committee.
- 3.14 There was no working with Calderdale Council's Internal Audit team during the year.
- 3.15 Staffing in the Internal Audit team was stable, although the placement student was not replaced. There are 10 substantive staff (8.4 full time equivalents), plus a trainee accountant.
- 3.16 As noted in 2.1, the Financial Procedure Rules and the Audit Strategy and Charter document allow Internal Audit unrestricted access to consider areas of activity as they see fit in providing this audit opinion. At no point during the year has any Officer or Member sought to influence or restrict the scope or areas of activity of any piece of work.
- 3.17 The conclusions reached in all the work presented are those of Internal Audit. The remote working methods have resulted in a greater use of virtual records and information. Whilst much of this is very powerful, some of the normal forms of information gathering, by direct observation, and sight of paper records have been reduced, and in some cases sample sizes have also been reduced
- 3.18 Internal Audit operates within the Public Sector Internal Audit Standards (PSIAS), which is a derived form of the international internal auditing standards. Internal compliance testing indicates that the operation was in accordance with PSIAS standard during 2020/21. The function was subject to an external assessment at the end of the financial year 2017/18. The assessment concluded that the activity operated at the highest standard – “generally conforms” to the PSIAS and Code of Ethics. Issues raised related to the time devoted by the Head of Internal Audit, the post holder's role in relation to risk management, training and skills, and performance indicators, including customer feedback. A further external assessment will be required during 2022/23. Appendix 2 provides additional information.

- 3.19 During 2020/21 the Head of Audit & Risk carried out some wider organisational duties that might be considered to conflict with the purely independent role of the Head of Internal Audit. These relate to roles in relation to council corporate risk management processes, supervision of the insurance function, and project advice relating to council investments. Any conflicts are handled by independent reporting, and the conflict is stated in any internal audit reports- such as the quarterly reports.
- 3.20 As noted above, 2020/21 was not normal. The audit planned work achieved was substantially smaller than usual. whilst it had a higher rate of negative outcomes, it was perhaps more focused. As noted in the quarterly reports, there has been an attempted reliance on assurance statements, although this must be considered to have been only partially successful.
- 3.21 What information then exists to reach an opinion on the overall control environment that applied in 2020/21
- (1) The core assurance work for 2020/21- 64% of which was positive, and of the residual, only some aspects raised issues that were of concern, and all the other assurance work in 2020/21, giving the overall 71% positive opinion
 - (2) The continued use of core control systems, largely in their designed form, which when reviewed 84% in 2019/20, and 73% in the previous year, had positive outcomes
 - (3) Other assurance information provided to the Committee during the year, e.g., from the Investigator of Regulatory Powers, from the external auditor regarding their work on the 2019/20 accounts and internally re Information Governance, Health & Safety and Customer Complaints.
 - (4) The Head of Internal Audits wider knowledge- heavily subordinate to the other 3 aspects above- about the broad operation of the control environment of the organisation.
- 3.22 From work during 2020/21 most of the assessments of the Council's governance, risk management, financial and business controls that were examined were sound and effective. However, as noted above work in year on routine assurance was necessarily very limited. There are also a much larger number of concerns and potentially continuing issues than in previous years, particularly about the robustness of compliance with the spirit as well as the letter of contract and financial procedure rules.
- 3.23 Nevertheless, it is concluded that (subject to the observations above) the Council can be considered to have an adequate control environment.

4. **Performance Measures of Internal Audit**

- 4.1 There is very little comparative benchmarking available about the costs of Internal Audit. Comparison of staffing numbers locally suggest that taking account of Council (and other) activity, the Kirklees IA team remains smaller than others, some of which have recently looked to strengthen their internal audit coverage.

- 4.2 The very unusual circumstances of 2020/21 means that the usual reporting criteria- such as reports completed on time, or within a certain number of days are not appropriate measures for the year. These control measures will be reported again at the end of 2021/22 if the year proves to be closer to normal. Otherwise, it may be necessary to reset a reasonable set of benchmarks of performance, by consultation with similar providers.
- 4.3 A quality assessment (15% sample) based on the consistent assessment criteria did find that all the work was compliant with the standards

5 Effectiveness of the system of Internal Control

- 5.1 The Accounts & Audit Regulations (England) require an Authority to conduct an annual review of the effectiveness of their system of internal control. An understanding of the arrangements of Internal Audit supports the ability to utilise the opinion of the Head of Internal Audit on the internal control environment as a key source of evidence in the Annual Governance Statement. As noted previously, the systems of assurance about internal control come from a wider source than just internal audit, although it is a primary source of assurance.
- 5.2 Financial Procedure Rule 5.6 requires the Head of Audit & Risk to review the systems of Internal Audit on an annual basis. The Public Sector Internal Audit Standards (PSIAS) make it a responsibility of the Head of Internal Audit to carry out periodic internal reviews and every 5 years have an external review of the Internal Audit function and report these to this Committee. The standard is complex and the recommended evaluation criteria (as codified by CIPFA) are quite cumbersome, and some are difficult to evaluate. Information about these reviews, finding and actions are provided at Appendix 2 to this report.
- 5.3 Members can gain assurance from several routes including their assessment of this and other reports (particularly the four quarterly reports). They can also gain assurance using factors such as performance indicators, quality assurance and consultation with senior management, although it is acknowledged that for 2020/21, again, this information is very limited.

6. Internal Audit in 2021/22

- 6.1 The responsibility for an effective audit function is a shared responsibility between the organisation, and its Head of Internal Audit, with the organisation recognising the importance of adequate and effective arrangements for governance, risk management and internal control, and the Head of Internal Audit ensuring an independent function looking to achieve best practice, that effectively engages with the organisation and the Corporate Governance & Audit Committee.

A draft plan is presented for consideration by this committee at appendix 1. There are no Service specific audit plans, although operational staff, heads of service and directors are still expected to participate in audit planning, delivery, and response to findings.

The performance targets for Internal Audit are at Appendix 3. The schedule of key systems, organisational and business controls is attached as Appendix 4.

- 6.2 Every activity will still – at least theoretically- be in view for internal audit, albeit this will be over a timescale of longer than 5 years. Under resourcing for some years, and the very serious impairment to a normal set of assurance reviews for 2020/21 means that there is an accumulating list of audits that should be priorities.
- 6.3 The Plan for 2021/22 is prepared around objectives to.
- a) Look at high value or high-risk activity and core systems and basic financial operations, and any that have not been reviewed in 2020/21, and or have been subject to changes in processes or procedures
 - b) Identify and document the wider assurance environment that operates across the organisation and determine if additional processes are needed to achieve a full set of entity control and assurance.
 - c) Ensure basic compliance with processes.
 - d) Have resources to investigate fraud and inappropriate behaviour
 - e) Carry out work contributing to the organisational objective of understanding and improving value for money.and
 - f) Complete the new approach to risk management
- 6.4 The plan is based on a reasonable level of productivity during the year, and no further diversion of resources, or significant impediments to delivery of work. If these cannot be fulfilled, this will impact on the overall delivery of work.

The substantial uncertainty does mean that this Committee need to recognise that there is no certainty that the whole plan, or indeed a substantial part of the draft plan will be delivered. There must be a recognition of the need for flexibility, and to provide the Head of Internal Audit with authority to flex the plan to meet organisational needs in relation to assurance that processes being operated are sound and free from inappropriate actions or influences.

- 6.5 It had been planned to review the council's fraud investigation arrangements during 2020/21; although some work was carried out this was not completed during 2020/21; this will need further attention in 2021/22, to ensure that the council's arrangements for investigating fraud are both effective and efficient. This will of necessity involve fraud awareness and prevention, as well as investigation.
- 6.6 Audit work will be performed in accordance with the Audit Strategy and Charter, the 2021 version is shown at Appendix 6 for approval. (Substantial changes are shown by "track" marking)

7. **Conclusions**

- 7.1 This report has summarised the activities of Internal Audit during 2020/21. Detailed information has been provided to Corporate Governance & Audit Committee during the year.

- 7.2 Despite difficulties during the year, there is sufficient evidence to demonstrate that the Council's system of governance, risk management and internal control is effective and that the opinion of the Head of Internal Audit on the internal control environment can be relied upon as a key source of evidence in the compilation of the Annual Governance Statement, although there are caveats.
- (a) That the assurance coverage is risk based and not absolute across the entire range of organisational activity and
 - (b) Other matters as described in this report.
- 7.3 The proportion of audit work which resulted in an assessment providing at least adequate assurance is 71%. The remaining 29% consists entirely of "limited assurance", with no (0%) "no assurance" this year.
- 7.4 There are no areas where, following audit recommendations, management have formally chosen to refuse to implement recommendations for action (and accordingly overtly accepted the potential consequences as a risk).
- 7.5 The opinion from the work performed - the scope of which does not cover every area of entity risk - is that, although there are some weaknesses in some systems of control, which may have worsened somewhat during the difficult year, the overall framework of the Council's governance, risk, business and financial systems, processes, controls, and its management of assets, remains sound.
- 7.6 It is concluded that overall, the Council has an adequate and effective control environment.

8. **Annual Governance Statement**

- 8.1 Information generated by Internal Audit forms a key part of the Council's assessment of the quality of its organisational and business controls and the degree of assurance that can be placed upon their operational effectiveness. This information is used in preparing the Council's Annual Governance Statement which accompanies the Statement of Accounts.
- 8.2 The positive opinion that the Council's arrangements provide an adequate and effective control environment needs to be considered in the context of the breadth of assurance provided by Internal Audit, and the comments contained in this report. There are several areas that might appropriately be escalated to the Annual Statement of Governance and these are covered in the separate report to be considered by the Committee.

Contact Officer

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Appendix 1

DRAFT INTERNAL AUDIT PLAN 2021/22 (101)

CHILDREN AND FAMILIES

Child Protection and Family Support (4)

External Residential Placements
Leaving Care
Purchasing Cards
Direct Payments (follow-up)

Learning and Early Support (40)

High Schools x 3
Special Schools x 3
Primary Schools x 30
Troubled Families Grant Claims
School Exclusion Pathway
Careers Partnership
SEND

Customers and Communities (4)

Digital Transformation
Prevent/ Counter Extremism/ Community Tensions
Modern Slavery
Community Investment Fund (follow-up)

CORPORATE STRATEGY, COMMISSIONING & PUBLIC HEALTH

Strategy and Innovation (6)

Cyber Security
Partnership Governance#
Communications Policy
IT Disaster Recovery Plan
IT Network Access Controls
Voice Network Contracts (follow-up)

Governance and Commissioning (5)

Data Protection Compliance
Decision Making per Constitution
Corporate Counter Fraud & Corruption#
CPR Compliance
Risk Management#

Finance (4)

Financial Management/FPR Compliance
NDR Liability including Relief
Data Verification
Bank Reconciliation (follow-up)

People Services (7)

Anti-Discrimination & Staff Inequality
Attendance Management
Mandatory Staff Training
Agency Labour
BACS Bureau
Category Management (follow-up)
Creditors System (follow-up)

Public Health (4)

Wellness Model
Healthy Child Contract
Business Continuity
Health & Safety

ENVIRONMENT AND CLIMATE CHANGE

Environment (6)

School Meals Income Collection
Car Parks Income & Fine Collection
School Transport
Building Control Approvals
Grounds Maintenance External Income (follow-up)
Taxi Licensing & Enforcement (follow-up)

GROWTH AND REGENERATION

Growth & Housing (2)

Housing Register
Homeless Management

Homes & Neighbourhoods (8)

Transfer of budgets/ expenditure in SAP
Data Migration from Snowdrop to SAP
Rent Setting
Safeguarding
Stores including van stocks
Asset Data Cleansing
Procurement of Works (follow-up)
Plant and Equipment Hire (follow-up)

Economy and Skills (3)

Right to Buy
Asbestos Management (follow-up)
Markets Income (follow-up)

ADULTS

Adults Social Care Operation (5)

Charging for Social Care
Assurance re Transformation
Emergency Duty Team
Safeguarding
Direct Payments (follow-up)

CORPORATE (3)

Safeguarding
Climate Change Emergency#
No Recourse to Public Funds (follow-up)

Notes

- Given the continuing constraint on resources, and operating methods, the audits listed above are the proposed core menu from which a priority list of work based on capacity and skills will be drawn.
- The draft plan has been prepared in accordance with the Public Sector Internal Audit Standards
- Follow up audits relate to audits in 2020/21 which produced a *Limited Assurance* opinion
- Audits marked # relate to Significant Governance Issues expected to feature in the 2020/21 AGS
- The audit planning process is risk based and attributes a score to each activity in the audit universe. Whilst most audits proposed above have a high “risk” score some lower risk audits have been scheduled to give a broader picture of the control environment across the organisation.

Appendix 2

Recommendations from the External Assessment of Internal Audit 2018

Actions linked to these matters were reported to Corporate Governance & Audit Committee on 25th January 2019

	Recommendations	Progress
1	Time devoted by the head of internal audit to the strategic and operational management of the function.	2020/21 outcome is like that for 2019/20, with slightly more time spent on corporate projects and less on investigations- See table that follows
2	Promoting a split between the creation and management of risk information, and the separate roles of internal audit in challenging entity risk identification and assessment and supporting this Committee in its role in overseeing risk arrangements.	Head of Risk continues to have role in risk management. There is a clearer set of activities re Risk Management, such as the risk panel.
3	Accessing the skills necessary to address speciality work areas (e.g., cyber-IT) and more generally to secure a sustainable workforce. (2.1).	Recognition that super-speciality skills not practically available, but as a recognition of workforce development trainee accountants recruited in 2019 and 2020.
4	Increasing the number of performance measures that are used to assess the effectiveness of internal audit (3.1)	Some additional information provided for those charged with governance. Monitoring targets/comparatives are not valid or appropriate for 2020/21.
5	The need to improve feedback/ client engagement information (4.2)	New survey arrangements were no more successful than previous arrangements. Still a need to improve client feedback in 2021/22, although there is equally an absence of any adverse commentary.
6	Making sure that process documentation is fully completed. (8.1)	Ongoing supervisions and quality checking.

Time spent analysis by Head of Audit & Risk		2019/20 % all year	2020/21 % all year
Specific IA projects, investigations		15	8
General Advice	Childrens	1	1
	Adults & Public Health	2	5
(#) advice includes corporate projects	Place	17	21#
(*) includes Business Rate Grants	Corporate	4	10*
	KNH & Housing	8	6
Procurement & FPRs & CPRs		11	13
Risk Management		7	7
Trust Funds		9	10
CGAC advice		5	5
Management & Supervision		21	14

Annual Review of Internal Audit - 2020

	Recommendations	Actions	Update
1	The Covid 19 national emergency has caused some IA staff to be deployed into assisting with the processing of grant payments. (4 Ethics)	Ensure sufficient separation to be sure that there is no unreasonable conflict when independent post payment audit checking is required	Achieved; to the extent that further review work is required - e.g., by HM Government, this will be independent of those carrying out processing
2	The level of resource available for internal audit may be insufficient (3; Principles). There may be some skill gaps- e.g., re IT ((2010 planning)	Review IA resource and determine of it is inadequate, or the organisation otherwise understands the extent of risk	Opportunity to perform more routine work in second half of year enabled enough work to form an opinion for year 20/21.

3	Explore potential for more rotation of assignments to avoid over familiarity (1130 Impairment)	To be considered on a personal basis based on skill and knowledge	Was not practical in 2020/21 circumstance but will be pursued in 21/22
4	Explore further options to obtain customer feedback (1311 assessment)	Recent changes not totally successful. Consider other options	Was not practical in 2020/21 circumstance but will be pursued in 21/22
5	Coordinate work with external auditor (2050 coordination)	To discuss with external auditor	Some reliance based on external audit work in 20/21, to avoid duplication, but rules applicable to external audit do not permit reliance on IA work
6	Is there an adequate audit brief for each audit? (6.3/2200 Engagement Planning)	To consider if client and auditor are clear about objectives, scope etc of each audit	Still requires more work; needs emphasis in 21/22 to drive quality

Annual Review of Internal Audit - 2021

	Recommendations	Actions	Timescale
1	Explore potential for more rotation of assignments to avoid over familiarity (1130 Impairment) from 2020(No3)	To be considered on a personal basis based on skill and knowledge	Through 2021/22
2	Explore further options to obtain customer feedback (1311 assessment) From 2020 (No4)	Consider other options	Summer 2021
3	Is there an adequate audit brief for each audit? (6.3/2200 Engagement Planning) From 2020 (No6)	To consider if client and auditor are clear about objectives, scope etc of each audit	Through 2021/22
4	Potential concern that skill mix does not match workload and aspirations (1200 Proficiency)	Assess skills and options and report back	Autumn 2021
5	Improve corporate reporting to senior management (20101 Planning/ 2060 Reporting)	Agree with Chief Executive what reporting should be provided to ET	Summer 2021
6	Additional work required on "other assurance" sources (2050 Coordination)	Additional work required on "other assurance"	Autumn 2021

Appendix 3

INTERNAL AUDIT PERFORMANCE TARGETS 2021/22

The operating methods did not make pursuing these targets practical in 2020/21, or initially in 2021/22; they will be reintroduced part way through the year if appropriate- or new performance measures identified.

Objectives	Performance Measures
Achieve planned audit work as adjusted	90% of planned priority audits achieved*
Achieve each planned audit within budgeted time allowed	80% of planned work achieved within initial time budget
Achieve high level of work quality and customer satisfaction	90% good or better responses to customer questionnaires
Delivery of completed audit work	85% of draft reports issued within 10 days of completion of site work

(*) Based on a full year; achievement needs to be pro-rata to new normal operating period, adjusted for any impacts of changed working arrangements.

Appendix 4

KEY CORPORATE SYSTEMS 2021/22

Financial Systems & Controls

Payroll (SAP)
Debtors (SAP)
Procurement / Creditors (SAP)
Council Tax
Business Rates
Council Tax Reduction Scheme (residual Benefits)
Housing Rents
Treasury Management
Payments for Social Care
School Payments
Internal Recharging

Key Organisation & Business Controls

Code of Corporate Governance
Contract Procedure Rules
Financial Procedure Rules
Contract Management
HR Operations
Risk Management
IT Controls
Performance Management Systems
Partnership Governance
Emergency & Business Continuity Planning
Information Security
Health & Safety
Fraud, Bribery & Corruption Risk
Corporate Complaints
Whistleblowing

Appendix 5

DETAILED PERFORMANCE STATISTICS FOR 5 YEARS

	2020/21	2019/20	2018/19	2017/18	2016/17
Number of days spent on planned and unplanned audit work		1,376	894	976	1,372
Number of financial processes and systems examined	14	32	11	16	42
Percentage offering limited assurance/ *unsatisfactory.	36%	16%	27%	44%	19%
Number of location/ establishment audits undertaken.	0	0	0	3	14
Percentage offering limited assurance/ *unsatisfactory.		n/a	n/a	0%	21%
Number of school audits undertaken	12	29	34	35	34
Percentage offering limited assurance/ *unsatisfactory.	0%	10%	6%	3%	18%
Follow up audit work carried out	12	13	9	18	19
Percentage offering limited assurance/ *unsatisfactory.		31%	55%	44%	21%
Number of business control audits undertaken		15	14	12	12
Percentage offering limited assurance/ *unsatisfactory.	50%	27%	36%	18%	17%
Number of investigations into irregularity		7	2	5	5
Number of management, governance or value for money studies	5	3	0	4	26
Number of grant audits, consultancy, projects	17#	13	19	11	
Completed formal tasks		112	89	104	152
Overall percentage of reported audits providing only limited assurance/ *unsatisfactory (corporate target 20%)	29%	18%	22%	22%	19%

includes "non audit/ assurance" tasks

KIRKLEES COUNCIL

INTERNAL AUDIT
STRATEGY & CHARTER

2021-22

EXECUTIVE SUMMARY- INTERNAL AUDIT STRATEGY & CHARTER

1. Internal Audit supports the organisation, and its management in achieving its objectives. Its work will involve.
 - a) Assurance about the internal financial and (other) business controls, and the council's broader assurance framework, including both a programme of planned assurance based internal reviews, and other more ad hoc assurance based work and projects
 - b) 'Consultancy' work, as commissioned, relating to business, financial and process controls and value for money, efficiency, and effectiveness.
 - c) Development of anti-fraud, anti-corruption and anti-bribery measures and investigation of any suspicions of inappropriate behaviour.
 - d) Information, advice, advocacy, and training in respect of best practice in achieving a high level of internal control, including Financial and Contract Procedure Rules.
 - e) Contributing to corporate/high impact projects, particularly those involving partnership and procurement.

Internal Audit coverage will apply to all the Council's direct operations, all wholly owned or controlled organisations or subsidiaries, including limited companies, and other partnership bodies (where the Council so determines).

2. Internal Audit work will address all the business controls of the organisation, prioritised based on risk. This involves a full coverage of all aspect of the Council's operation, including financial systems, processes and activities, all other business processes, risk management, governance arrangements, information management and appropriate use of technology.
3. Internal Audit activity will be planned, carried out and reported within a general philosophy of providing evidence-based analysis and helpful advice to all levels of management and achieving positive consequential progress.
4. Except where otherwise agreed, written reports will provide summary information, detail on any findings of note, conclusions and recommendations to advise and inform managers of all levels.
5. Establishing effective systems of operation and implementation of audit recommendations is the responsibility of management. It is not the role of Internal Audit to act as a proxy for appropriate performance management of, or by, senior management.

6. Internal Audit will follow up the implementation of accepted recommendations in all cases where there were concerns about a system, process, or activity, or where recommendations result from an investigation. Other agreed recommendations may be followed up on a sample basis
 7. Internal Audit will co-ordinate the overall corporate assessment of business controls and risk management. It will help develop and monitor the Risk Management Statement.
 8. Internal Audit will operate in accordance with the (mandatory) Public Sector Internal Audit Standards (PSIAS) and the supplementary CIPFA guidance. Internal audit officers will act with independence, objectivity and integrity and respect the confidentiality of organisational information.
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CONTENTS

1. Introduction
 2. Objectives of Internal Audit
 3. Independence, Responsibilities and Authority
 4. Performance Management and Quality Control
 5. Audit Reporting
 6. Internal Audit Delivery
 7. Partnership; Obtaining & Providing Assurance to Others
- Appendix 1 Control Environment (definition)
- Appendix 2 Financial Procedure Rules (extract)
- Appendix 3 Role of the Audit Committee
- Appendix 4 Audit Planning, Resourcing & Reporting (detail)
- Appendix 5 Public Sector Internal Audit Standards
- Appendix 6 Statement of the Responsibilities of Management

1. INTRODUCTION

- 1.1 Local Authorities are required under the Local Government Acts and the Accounts and Audit Regulations 2015 to have a continuous internal audit of their financial and other business controls. It will be delivered in compliance with the Public Sector Internal Audit Standards (PSIAS). This is mandatory guidance which states the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance. These standards in local authorities are supplemented by additional guidance from CIPFA that has regulatory authority for local government in the UK.
- 1.2 The PSIAS require that there is a formal Internal Audit Charter defining the purpose, authority and responsibilities of Internal Audit, which must be consistent with the PSIAS definition of internal audit, code of ethics and professional standards.
- 1.3 The main purpose of Internal Audit is to support the organisation in achieving its objectives, and particularly to play a key role in the Council's Corporate Governance arrangements in ensuring Members and Corporate Managers have adequate assurance that they are meeting their responsibilities.
- 1.4 This document has been prepared to set out:
- The objectives of Internal Audit
 - The scope of its operation
 - Its rights and responsibilities
 - The responsibility of others
 - The Audit planning process
 - The Audit reporting process
- 1.5 This Strategy and Charter will be regularly presented to senior management and reviewed regularly by the Corporate Governance & Audit Committee. Its purpose is to set out the purpose, nature, objectives, outcomes and responsibilities of the internal audit service.

2. OBJECTIVES OF INTERNAL AUDIT

- 2.1 Internal Audit's objectives can be defined as:

“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”. (PSIAS)

This definition goes beyond basic compliance by evaluating and improving the effectiveness of the entire risk, control and governance arrangements (including financial and non-financial control systems). As an independent appraisal function Internal Audit can offer assurance on the effectiveness of internal control arrangements, contributing to the efficient use of resources and generally helping management to monitor performance, improve operational efficiency and target objectives. These actions will add value by supporting the organisation in achievement of the Council's objectives.

2.2 Specifically the role is to provide:

- *Assurance, principally by a review of the control environment* - The 'control environment' comprises the business systems which are operated to implement the Council's statutory obligations and its policies and objectives. This includes systems and processes, governance and decision making, and risk identification and management. It involves the review of all the major financial and accounting systems and practices, and controls of other kinds (such as purchasing and human resources). For financial controls it involves a more detailed review of information, records, assets and other resources to identify appropriate financial stewardship. (See Appendix 1). It also includes matters relating to organisational ethics, use of technology and matters such as management of data and information.
- *Consultancy* - Undertake, when commissioned, other reviews and projects which use investigative, analytical and consultancy skills. This work can be specific or involve on-going advice and may include value for money related activity. Where this advice is provided it is given notwithstanding the responsibility to provide assurance as above. Any work performed will be accepted only within the competencies of staffing.
- *Assurance and Investigation into suspected Fraud, Corruption and Bribery* - It is essential that Internal Audit has awareness of issues of fraud, bribery and corruption, as a part of gaining assurance about the control environment (as above). In some circumstances it may be appropriate for Internal Audit to undertake investigations into suspected irregularity, fraud, or corruption. Internal Audit also prepares and maintains the Corporate Anti-Fraud, Anti-Corruption and Anti-Bribery Strategy, and provides guidance for managers and Members and thus helps promote good corporate governance and the highest ethical standards. It also coordinates the Council's approach to the mandatory national fraud initiative. (NFI).
- *Advice* - Provide operational advice on the development of processes and systems and on the interpretation of the Council's rules (principally Financial Procedure Rules and Contract Procedure Rules).

2.3 Audit advice and recommendations are given in all cases without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later date.

2.4 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit advises the Council on whether effective and efficient arrangements exist, cumulating in the annual opinion

of the Head of Internal Audit, which informs the Annual Governance Statement. Optimum benefit to the Council should arise when Internal Audit work in partnership with management to

- improve the control environment
- achieving organisational objectives.

3. INDEPENDENCE, RESPONSIBILITIES AND AUTHORITY

An effective internal audit function must be independent, objective and unbiased.

3.1 Authority

Internal Audit has authority to:

- Enter at all times any Council premises, land or location from which Council services are provided;(including those of partners and contractors)
- Have access to all property, records, documents, correspondence, data (in all forms) relating to all activities of the Council.
- Require and receive explanations in respect of any matter; and
- Require any employee of the Council, without prior notice, to produce cash, stores or any other property for which they are responsible.
- Require the assistance of any employee, such as by the attendance at meetings (of any form), submission of information in any required media, or any other reasonable action to enable internal audit to fulfil its role and objectives

The rights and responsibilities of Internal Audit are set out in Financial Procedure Rules (an extract is included at Appendix 2)

3.2 Responsibilities of the Head of Internal Audit

(The Head of Internal Audit has the formal title in the Council's structure of Head of Risk)

The Head of Internal Audit.

- Reports functionally to the Corporate Governance & Audit Committee which operates as the Audit Committee of the Council, and issues reports under his own name.
- Reports managerially to the Chief Executive, Service Director for Finance and Service Director, Legal Governance & Commissioning (Monitoring Officer) and for supervisory purposes to the Service Director, Legal Governance & Commissioning.
- Has the right to communicate directly with any Strategic or Service Director, or any other Council officer. The Head of Internal Audit may also communicate with any Cabinet Member or Councillor, or other person.

- Has the right to communicate confidentially with the Chair of the Corporate Governance & Audit Committee on any matters.
- Must advise the Corporate Governance & Audit Committee on any matter where any significant risk or threat to the organisation, identified through audit assurance work, has not been adequately addressed by management.
- Is responsible for the delivery of the internal audit function and achievement of the standards described within this document.

The Head of Internal Audit has responsibility for ensuring compliance with statutory requirements, in particular the Data Protection and Freedom of Information Acts, and Council Policy concerning records management in operation of the internal audit activity. All audit work will be done in accordance with the principles of [this Data Protection/Freedom of Information](#) legislation, unless certain exemptions apply to individual circumstances, so that, for example, personal data will be kept securely and disposed of correctly when it is no longer required for audit purposes. Information collected by way of audit work will be stored on paper and or electronically. Permanent file data, such as system notes will be kept until it is no longer valid. Reports, correspondence working papers and supporting evidence will be kept up to 6 years, but normally until after the next audit of the activity is completed, (or longer where an Audit Manager considers that this is necessary to facilitate service provision).

The Head of Internal Audit will ensure that audit work is shared with Strategic Directors, Service Directors and other senior managers and their appointees, and commissioning officers for investigations and reviews. Additionally, summaries will be provided to the Corporate Governance & Audit Committee, individual Members or others (e.g., whistle-blowers) who refer matters to Internal Audit, the external auditor and to other authorities and agencies to facilitate joint and partnership working as appropriate. Audit work will (except when otherwise agreed) be treated as confidential, but in certain circumstances may be wholly or partially subject to disclosure under the Freedom of Information Act.

Operationally, Internal Audit reports to the Chief Executive, statutory Chief Financial Officer and Monitoring Officer.

~~Internal audit work at Kirklees Neighbourhood Housing Ltd (KNH), a wholly owned and controlled (teckal) subsidiary of the Council, is carried out in the same way as a Council service, and is under the direction of the Council Corporate Governance & Audit Committee, with management input by officers of the company, as with a Council service, and some involvement by the Board of KNH, as necessary to enable them to discharge their responsibilities as Directors.~~

3.3 Responsibilities of Internal Audit

The responsibilities and objectives of Internal Audit are as follows:

- To provide soundly based assurances to management on the adequacy and effectiveness of their internal control, risk and governance arrangements, including ethics, information management and technology.
- To review, appraise and report on the extent to which the assets and interests of the Authority are accounted for and safeguarded from loss.
- To review, appraise and report on the suitability and reliability of financial and other management data and information.
- To assess the adequacy and effectiveness of the Authority's procurement, contract and partnership arrangements.
- To support schools in achieving high standards of control and governance.
- To assess the corporate risk management processes.
- To evaluate the risk of fraud and how it is managed and controlled. To provide corporate fraud and irregularity prevention, detection and investigation services in accordance with the Anti-Fraud, Anti-Corruption and Anti-Bribery Strategy.
- To reach conclusions about the effectiveness of the Council's control environment, and to recommend improvements to management.
- To contribute to assurances in relation to the robustness and reliability of internal controls and governance to support the Annual Governance Statement (AGS).
- To support the achievement of efficiency, value for money and effective change management.
- To provide advisory and consultancy services intended to add value and improve value for money, governance, risk management and control processes.
- To provide advice in respect of the development of new or significant changes to existing programmes and processes including the design of appropriate controls. This is usually through membership of groups, boards or working parties as well as direct contact with officers within Services.
- To support effective procurement.
- To support activities of the Corporate Governance & Audit Committee to discharge its responsibilities.
- To support the Service Director of Finance as the Council's Chief Financial (s151) Officer and all senior management in meeting their corporate responsibilities.
- To monitor the implementation of agreed recommendations.
- To plan, manage and operate the internal audit function in an efficient and effective manner.

3.4 Responsibilities and expectations of Internal Auditors

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined, working with honesty, diligence and responsibility. They must always observe the law and respect and contribute to the legitimate and ethical objectives of the Council.

Objectivity:

Internal Auditors must make a balanced assessment of all the relevant circumstances and not be, or appear to be, unduly influenced.
This means.

- Not taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment.
- Declaring any real or perceived interests on an annual basis, or at any time that they recognise any impairment to the objectivity.
- Not 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.
- Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review.
- Not using information obtained during duties for personal gain and.
- Complying with the Bribery Act 2010.

Confidentiality:

Internal Auditors must.

- Act prudently when using information acquired in the course of their duties and protecting that information and.
- Not use information (derived or obtained through their official role) for any personal gain.

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

Integrity:

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

- Comply with relevant professional standards of conduct and perform their work with honesty, diligence and responsibility.

Competency:

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

- Possessing the knowledge, skills and technical proficiency relevant to the performance of their duties.
- Being skilled in dealing with people and communicating audit, risk management and related issues effectively.
- Maintaining their technical competence through a programme of continuous professional development.
- Exercising due professional care in performing their duties; and
- Complying with all requirements of the PSIAS.

Awareness:

- Being alert to the issue of fraud and corruption.

Internal Audit staff must declare any conflict of interest, or potential conflicts of interest, actual or perceived, to their Manager.

3.5 Statement of pre-existing areas of conflict in current audit activity

The Head of Internal Audit – as “Head of Risk” has direct operational responsibility for the Insurance, Risk Management and Corporate Customer Standards (complaints) functions and provides input into certain procurement functions and corporate projects. When audits are required of these areas, the Audit Manager reports direct to the Service Director Legal, Governance & Commissioning. This arrangement helps maintain independence and avoid any conflicts of interest.

On a Consultancy basis, but as a matter of routine, Internal Audit staff provide advice about the methods of financial evaluation of contracts and contractors and carry out on a task specific basis financial evaluation of prospective suppliers to the Council.

Except for these activities, the Internal Audit function has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in processing functions or business activities.

~~Otherwise,~~ 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 (or advised in a consultancy capacity) for a period of two years. This will also apply where an internal auditor is temporarily required to carry out other duties.

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

4. PERFORMANCE MANAGEMENT AND QUALITY CONTROL

4.1 Performance Management

The Corporate Governance & Audit Committee will establish performance measures for the Council, in respect of the control environment, and for the Internal Audit function and consider performance against those measures in reviewing the activity of Internal Audit.

4.2 Quality Control

The PSIAS requires the operation of quality assessment and review mechanisms, which must be assessed internally at least annually, and by an external assessor at least every 5 years.

The Head of Internal Audit is responsible for advising the Committee on the appropriateness of measures and targets, and on collecting this information.

The Head of Internal Audit will establish internal quality control and review practices consistent with the requirements of the PSIAS, and report on the outcome of this review work to the Corporate Governance & Audit Committee as a part of the Annual Report.

Quality control will include direction and supervision of work performed, the retention of appropriate reliable and relevant evidence to justify findings and conclusions and recommendations, and the internal review and assessment of work, including its preparation in accordance with detailed standards, and compliance with the requirements of PSIAS and CIPFA.

The Head of Internal Audit is responsible for arranging for the external assessment, providing the necessary information, and acting on any outcomes from the assessment. This will be done under the oversight of the Chair of the Corporate Governance & Audit Committee.

The external auditor and other external review agencies may evaluate the work of Internal Audit as part of their assessment of Council activity.

5. REPORTING

The Head of Audit and Risk will report to the Corporate Governance & Audit Committee.

- Quarterly on each piece of work completed in the period, the opinion arising from that work and performance of internal audit (achievement of the annual audit plan (as revised when required), client satisfaction and quality assessment).
- Annually on the overall achievement and assessment of the Council's internal audit work programme, including an opinion on the control system, risk management and governance arrangements, and performance information, such as issuing reports on time, completing work within time allocated.
- Annually on the overall risk environment and the overall planned work on assurance in the forthcoming year, plus any investigative and consultancy tasks. This will include an assessment on the availability of resources, and any impact this may have on the ability to assess the control environment.
- As necessary on any matter impacting on the overall integrity of the Council's control environment, typically indicated by a "no assurance" audit opinion, or on any operational matter that seriously impacts on the delivery of the audit plan or resourcing of the internal audit function.

Internal Audit reports to all levels of management, with reporting of detailed operational work usually being to Service-Directors. The Chief Executive and Strategic Directors receive the full Council wide summary of activity.

6. INTERNAL AUDIT DELIVERY.

- 6.1 The Head of Internal Audit is responsible for the effective use of resources to deliver the Audit Plan.
- 6.2 Delivery is by direct employees of the Council, including trainees and secondees and where necessary temporary and casual employees. The use of specialist consultancy and contractors will be considered if necessary, to deliver specific elements of the workload.
- 6.3 At least annually, the Head of Internal Audit will submit to the Corporate Governance and Audit Committee a risk based Internal Audit Plan for review and approval. The plan will consist of a schedule of planned assurance and consultancy work (including some contingency) which will establish resource requirements for the next financial year. This will be balanced between resource requirement and capacity. The standard requires the Head of Internal Audit to advise the Corporate Governance & Audit Committee if the number of resources available compromises the ability to offer appropriate levels of assurance.
- 6.4 The internal audit plan is based on a risk-based assessment. The current standard -for 2020/21- is to potentially cover all areas of activity from the most significant to the most minor, although prioritisation is to ensuring that assurance coverage concentrates on those areas of highest risk in terms of potential exposure or likelihood of failure, covering both financial and other business controls (where assurance work utilise the responsibilities and processes for control effected by other teams such as Health & Safety).
- 6.5 Necessary material variations from the approved Internal Audit Plan are reported to and approved by the Corporate Governance & Audit Committee.

7. PARTNERSHIP, OBTAINING & PROVIDING ASSURANCE TO OTHERS

- 7.1 In respect of operations through partnership and semi-independent organisations:
 - (i) Usually, the Council will require its internal auditors to have access to property, records, documents, and correspondence, in respect of any activity operated or controlled by the organisation working for the Council, and for its auditors to be provided with explanations by officers of the organisation. Contracts and agreement documents will set out these rights where it is appropriate.
 - (ii) The Council (through agreement by the Head of Internal Audit) may agree that alternative review arrangements operated by or on behalf of

the organisation, or independently, will provide sufficient evidence to enable the Council to secure assurance conclusions about the aspects of the effectiveness of the Council's control environment to which the partnership relates, although the Council will retain an ultimate right to review any activity dependent on the Council's funding. In this context the Head of Internal Audit will seek to develop relationships, formalised where practical, with other internal auditors and other review agencies to facilitate this. This may include obtaining all or some elements of assurance from the internal auditors employed by the organisation, and or participating with other internal auditors (e.g., employed by local authorities in the sub region) to evaluate the procedures operated by shared partners (such as a regional wide public body) and using such assurance instead of obtaining direct assurance.

- (iii) The Council will, when requested and appropriate, provide assurance (based on work performed) to other partner organisations.

7.2 The Council's external auditor has full and free access to any records and work performed by Internal Audit. Action will be taken to coordinate work to avoid any duplication, and to ensure effective mutual working.

~~The Council provides Internal Audit services to the wholly owned Kirklees Neighbourhood Housing Ltd, for which the council's Corporate Governance & Audit Committee acts as Audit Committee.~~

7.3 The Council provides Internal Audit services to:

- Kirklees Active Leisure, which is a charitable trust under a service level agreement. Although the Council is the main partner of KAL, audit accountability and reporting is to Kirklees Active Leisure only.
- The West Yorkshire Fire & Rescue Authority, which is a separate public body. This organisation makes significant use of the Council's financial systems. Audit accountability and reporting is to West Yorkshire Fire & Rescue Service only.

Appendix 1

CONTROL ENVIRONMENT - AUDIT WORK

The Control Environment comprises the Council's policies, procedures and operations in place to:

- a) Establish, and monitor the achievement of the organisation's objectives.
- b) Identify, assess and manage the risks to achieving organisational objectives.
- c) Facilitate policy and decision making.
- d) Ensure the economical, effective and efficient use of resources
- e) Ensure compliance with established policies (including behavioural and ethical expectation), procedures, laws and regulations.
- f) Safeguard assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption; and
- g) Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes. This encompasses elements of corporate governance and risk management.

Control Environment audit work utilises a risk based, systematic approach for all control environment work to:

- i) Identify and record the objectives, controls and risks of the system or process.
- ii) Establish the congruence of operational objectives with higher-level corporate objectives.
- iii) Evaluate and review the application of risk management processes and documentation.
- iv) Evaluate the controls in principle to decide whether, or not, they are appropriate and can be reasonably relied upon to achieve their purpose.
- v) Identify any instances of over-control.
- vi) Determine and undertake appropriate tests of the effectiveness of controls, i.e., through compliance or substantive testing.
- vii) Arrive at conclusions and recommendations; and
- viii) Provide a written opinion on the effectiveness of the control environment.

EXTRACT OF FINANCIAL PROCEDURE RULES

Appendix 2 (if approved the amended FPRs for 2021 will be incorporated here)

5. INTERNAL AUDIT (2019 version)

Responsibility & Authority

- 5.1 *The Chief Executive (in consultation with the Chief Finance Officer and Monitoring Officer) must arrange and direct a continuous internal audit, which is an independent review of the accounting, financial and other operations of the Council.*
- 5.2 *The Head of Risk will report directly to the Chief Executive, the Chair of the Corporate Governance & Audit Committee or the External Auditor in any circumstance where the functions and responsibilities of the chief finance officer are being reviewed. (other than routine reporting of work carried out)*
- 5.3 *The Head of Risk has authority to: -*
- (a) *Enter at all times any Council premises or land or location from which Council services are provided.*
 - (b) *have access to all property, records, documents and correspondence relating to all activities of the Council.*
 - (c) *require and receive explanations concerning any matter; and*
 - (d) *Require any employee of the Council, without prior notice, to produce cash, stores or any other property for which they are responsible.*

The chief finance officer has the same authority for any accounting or associated purpose.

Planning & Reporting

5.4 *The Head of Risk must plan and report (in accordance with the approved Audit Strategy and Charter, Public Sector Internal Audit Standards and any instructions from the Councils Corporate Governance & Audit Committee) upon: -*

- a) *The risks inherent in and associated with each system.*
- b) *The soundness, adequacy and application of the financial and other management controls and systems within each Service.*
- c) *The extent of compliance with, and the financial effects of, established policies, plans and procedures.*
- d) *The extent to which the organisation's Assets and interests are accounted for and safeguarded from losses of all kinds arising from fraud, other offences, waste, extravagance and inefficient administration, poor value for money and other cause.*
- e) *The suitability, accuracy and reliability of financial and other management data within the organisation; and*
- f) *Value for money aspects of service provision.*

5.5 *In respect of any audit report or communication issued, the Director must reply within 4 weeks indicating the action proposed or taken, by whom and including target dates. Where a draft report is issued for initial comments a reply must be made within 2 weeks of issue.*

5.6 *The Head of Risk will provide a written summary of the activities of the Internal Audit function to the Cabinet and Corporate Governance & Audit Committee at least four times per year and an Annual Report produced for consideration by Management Board, Cabinet and Corporate Governance & Audit Committee, including an audit opinion on the adequacy and effectiveness of the Council's risk management systems and internal control environment.*

The Head of Risk will review the system of internal audit on an annual basis and report the outcome to the Corporate Governance & Audit Committee.

Investigations and Suspected Fraud, Corruption or Bribery.

5.7 *The Chief Executive and Directors must ensure that all Members and employees are: -*

- a) *Aware of the Council's Anti-Fraud, Anti-Corruption and Anti Bribery Strategy.*
- b) *Aware of the Whistleblowing Strategy; and*
- c) *Operating in a way that maximises internal check against inappropriate behaviour.*

The Head of Risk is responsible for the development and maintenance of the Anti-Fraud, Anti-Corruption and Anti Bribery Strategy and Whistleblowing Strategy and for directing the Council's efforts in fraud investigation.

5.8 *It is the duty of any officer who suspects or becomes aware of any matter which may involve loss or irregularity concerning cash, stores or other property of the Council or any suspected irregularity in the operations or exercise of the functions of the Council to immediately advise the Director. The Director concerned must immediately notify the Head of Risk who may take action by way of investigation and report.*

5.9 *Where, following investigation, the Head of Risk considers that there are reasonable grounds for suspecting that a loss has occurred as a result of misappropriation, irregular expenditure or fraud, consultations will be held with the Director on the relevant courses of action, including the possibility of police involvement and the invoking of any internal disciplinary procedure in accordance with the relevant conditions of service. (Claimant fraud in respect of Housing Benefit and Council Tax Reduction and Discounts (where the claimant is not an employee or Member of the Council) is investigated by the Revenue & Benefits Service).*

ROLE OF THE “AUDIT COMMITTEE”

<p>Extract from Terms of Reference of Corporate Governance & Audit Committee (May 2019) from the Council Constitution.</p> <p>6. To consider the council's arrangements relating to internal audit requirements including:</p> <p>(a) considering the Annual Internal Audit report, reviewing and making recommendations on issues contained therein</p> <p>(b) monitoring the performance of internal audit</p> <p>(c) agreeing and reviewing the nature and scope of the Annual Audit Plan</p> <p>7. To review the adequacy of the council's Corporate Governance arrangements. This will include (but not be limited to) the following:</p> <p>7.1. Internal control and risk management;</p> <p>7.2. Oversight of whistleblowing and the Council's whistleblowing policy;</p> <p>7.3. Oversight of the complaints process and the role of the Local Government Ombudsman;</p> <p>7.4. Oversight of Information Governance and the role of the ICO;</p> <p>7.5. To review and approve the annual statement of Corporate Governance.</p> <p>8. To agree and update regularly the council's Code of Corporate Governance, monitoring its operation and compliance with it, and using it as a benchmark against performance for the annual Statement of Corporate Governance.</p>

Monitoring the performance of Internal Audit might include: -

- i) Reviewing the scope, effectiveness and resourcing of the Internal Audit function;(including ensuring its budget is sufficient to achieve the work programme that the Committee considers to be necessary)
- ii) Assessing the balance between routine/unplanned/investigative work and systems /process/probity/unit/investigations/vfm studies/best value review/other work.
- iii) Appraising the accuracy and coverage of the work carried out.
- iv) Reviewing issues arising out of Internal Audit work.
- v) Reviewing management commitment to implementing audit recommendations.
- vi) Performance Management of Internal Audit work.

The Corporate Governance & Audit Committee can in support of its role:

- i) Call for Internal Audit reports to be submitted to it for consideration.
- ii) Commission specific pieces of Internal Audit work; and
- iii) Summon officers, members or other persons to explain their actions, or inactions, in relation to Internal Audit work.

Appendix 4

AUDIT PLANNING, RESOURCING AND REPORTING (Detail) 1

Corporate Audit Planning

- 1.1 The Head of Internal Audit is responsible for appropriate planning and deployment of Internal Audit resources by production of:
A Strategic Statement of Areas of Auditable Activities and risk.
A detailed Annual Audit Plan setting out the specific assignments planned for the year, reflecting risk and priorities and matched to the available resources.
- 1.2 The Annual Audit Plan will identify the work which is necessary to fulfil the following obligations: Assurance on effectiveness of internal controls to deliver efficient operations, safeguard the Council's assets and ensure compliance with relevant legislation, regulations, policies and procedures Including:
- (i) Assurance on key internal controls
 - (ii) Assurance on financial processes and systems.
 - (iii) General assurance on other business systems and processes.
 - (iv) Opinion on Risk Management
 - (v) Opinion on Governance Arrangements
- 1.3 The level of resources allocated and work planned need to be balanced, to provide the levels of assurance, and other activities, that are expected as outcomes.

2 Risk Assessment

- 2.1 Both of the Strategic and Annual Plans are prepared based on an assessment of risk. Although this can be made ostensibly scientific, at its heart is professional judgement about the: -
- i) Importance of a risk area.
 - ii) Existing level of internal control and risk management.
 - iii) Materiality.
 - iv) Significance in terms of organisational impact, sensitivity and accountability.
 - v) Previous coverage and experience and knowledge gained by Internal Audit; and
 - vi) Coverage by other review agencies.
- 2.2 The key financial systems will usually be subject to triennial review. The frequency of review of other business, governance and major and medium risk financial systems and processes will typically be between 3 and 5 years. Some operational units and minor financial and business processes will be subject to audit work less frequently than every 5 years.
- 2.3 Any consultancy work will be separate from the control environment work and be based against specific objectives agreed with the Director responsible before the work commences.

3 Other Audit Work

- 3.1 Internal Audit will have the opportunity to determine if they wish to investigate any suspected irregularity or inappropriate behaviour by officers of the Council, its partners, suppliers or Service users which involves the potential misuse or loss of the Council's resources, including cash, stores, or other amounts. The Anti-Fraud, Anti-Corruption & Anti-Bribery Strategy and the Financial Procedure Rules set down a procedure for investigation, reporting and decision making. The exceptions to this are the investigation of customer claims for Council Tax Reduction, Housing Benefit, Blue Badges, Right to Buy and other means tested care provision (which are at April 2020 the responsibility of the Investigation Team, Revenue & Benefits Service, although arrangements for the management of this team may change during 2020/21) and investigations into the misuse of Council paid time (e.g. inappropriate absence from work) which, along with non-resource based disciplinary matters, are the responsibility of Service management.
- 3.2 In order to test compliance by management in implementing agreed recommendations Internal Audit will follow up all cases where planned audit work identified that a system or process was considered to offer only limited assurance, or no assurance (see tables 6.3 and 6.4) and in a sample of other cases. In the case of investigations, or consultancy, any outcome which results in agreed recommendations for improvements to process will also be subject to further review

4 Audit Resources

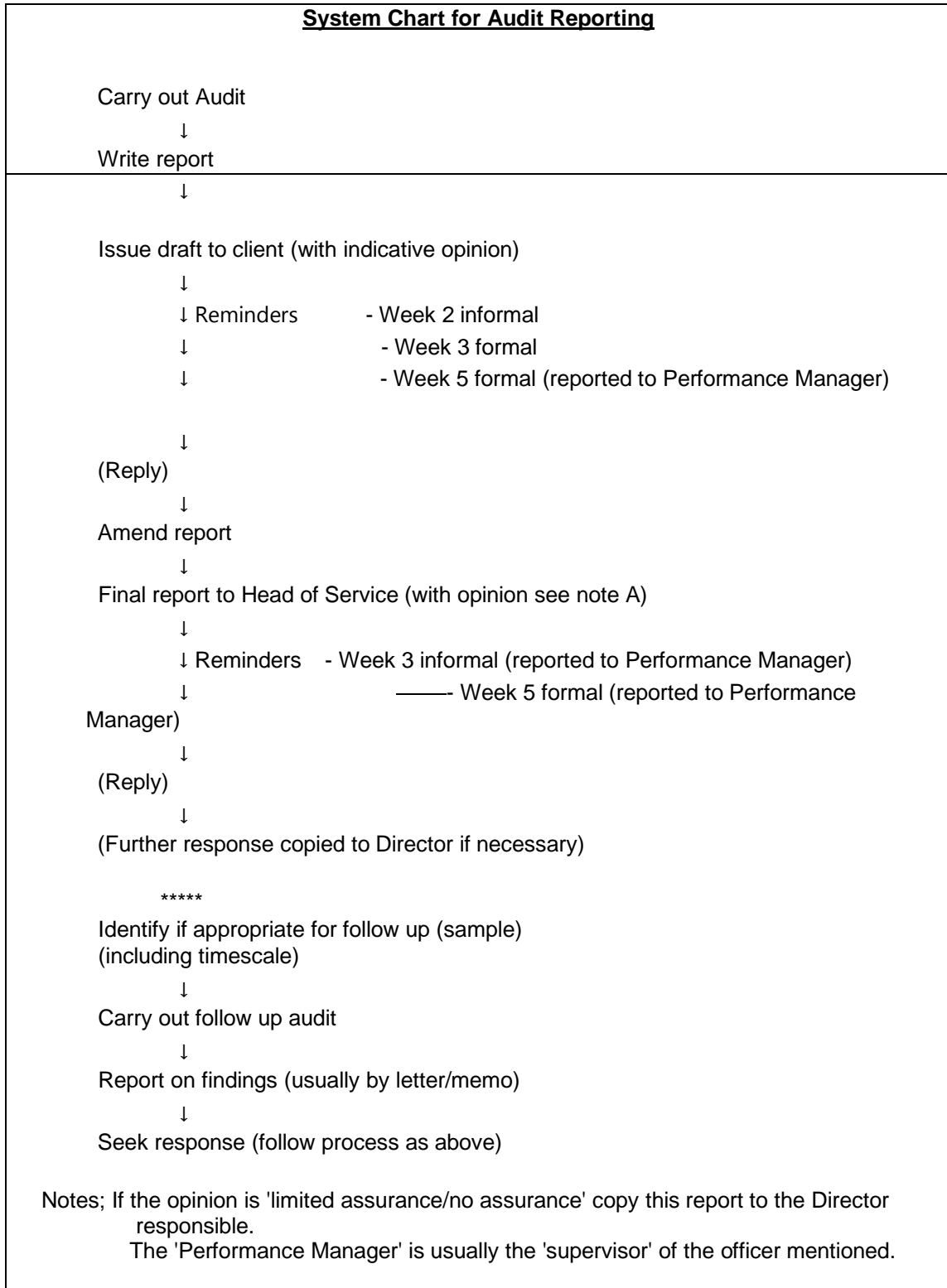
- 4.1 The Strategic Audit Plan includes a schedule of risks areas with an assessment of their nature and potential severity in terms of probability and impact.
- 4.2 At the start of each year, an Annual Plan will be prepared that looks at the degree of risk, based on the extent of assessed severity, and the date and findings of the previous work.
- 4.3 The Annual Plan needs to be interactively monitored against emerging risks, with the Plan being amended to reflect need, to ensure that resources are deployed on a priority basis.
- 4.4 The Head of Internal Audit will have the authority to change the plan to achieve this objective, and report back as a part of quarterly reporting of any significant changes made.
- 4.5 The Head of Internal Audit must monitor to ensure that there is sufficient resource to enable adequate coverage, and report at least annually on this.
- 4.6 The Annual Plan (IA control version) will include an allocation of days for each assignment (based on an expectation of an adequate arrangement)
- 4.7 In addition to the programmed audit work there needs to be time allowed:
- i) As a contingency for dealing with unexpected issues/delays in planned work.
 - ii) To allow for un-programmed work and investigations.

5 Audit Assignments

- 5.1 Each specific Internal Audit assignment will identify its objectives and a time allocation and be either:
- (i) Subject to a routine audit programme developed in relation to the activity; or
 - (ii) Subject to a specific audit brief developed for the specific task and agreed with the client. (This can be either an infrequent piece of assurance work, or a unique piece of consultancy).
- 5.2 Prior to the commencement of routine audits, Internal Audit will usually inform the manager responsible for the Service area under review about the purpose, scope and expected timing of the work. However, for some types of audit, such as special investigations, advance warning of the audit visit may not be appropriate, and this is at the discretion of the Head of Internal Audit.
- 5.3 Internal audit work will look to assess and provide information on the:
- i) Soundness, adequacy and application of the financial and other management controls and systems within each Service.
 - ii) Extent of compliance with, and the financial effects of, established policies, plans and procedures.
 - iii) Extent to which the organisation's assets and interests are accounted for and safeguarded from losses of all kinds arising from fraud, other offences, waste, extravagance, and inefficient administration, poor value for money and other cause.
 - iv) Suitability, accuracy and reliability of financial and other management data within the organisation; and (where applicable)
 - v) Value for money aspects of service provision
- 5.4 During the conduct of reviews, Internal Audit staff will consult, orally and/or in writing, with relevant officers to:
- i) Ensure information gathered is accurate and properly interpreted.
 - ii) Allow management to put their case to ensure that a balanced assessment is made.
 - iii) Keep management informed on the progress of the audit.
 - iv) Ensure recommendations are cost effective and practicable; and
 - v) Ensure that all recommendations agreed are followed up and that action has been taken leading to implementation.
- 5.5 Whatever the source of the evidence, Internal Audit must be satisfied as to its nature, reliability, completeness and relevance before drawing conclusions.
- 5.6 Internal Audit "working papers" (paper and electronic) will contain the principal evidence to support reports and they also provide the basis for review of work by documenting: -
- i) Planning.
 - ii) Examination and evaluation of the adequacy and effectiveness of internal controls.
 - iii) The audit procedures employed, the information obtained, and the conclusions reached.
 - iv) The management reviews
 - v) The report; and (as applicable, if any)
 - vi) Follow up.

- 5.7. The Auditor and Audit Manager will use their best endeavours to deliver the completed assignment within the time allocated and the timescale determined. This may not be possible due to inability to access key staff, other programming difficulties, the state of the records and information presented.

6 Audit Reporting



6.1 Internal Audit Reports

In respect of each assignment Internal Audit will produce a written report. This will usually set out summary information about the objectives and the work performed providing detail of any adverse findings on an "exception only basis" setting out the extent to which operations fail to conform to the established standard, and other important matters identified, stating the conclusions reached and recommendations, with an Action Plan to address these recommendations.

Where a report is issued, generally this will initially be in the form of a draft report, issued to the auditee and line manager, for comment on factual accuracy and the potential practicality of draft recommendations. Services can indicate at this stage if they agree with the recommendations and how they intend to action them. This will be usually issued by email

In respect of investigative work, the draft report (when produced) will be discussed with the responsible Director (or nominee). For consultancy work, the draft will be discussed with the commissioning manager.

On occasions where there are no adverse findings or recommendations, a report may progress to final stage without a draft being necessary.

The final Internal Audit report will be issued to the Service Director (or where agreed, the Strategic Director). An accompanying letter or email will indicate the Internal Audit opinion on the state of the system / process at the time the audit was undertaken, (and if the report is to feature in detail in subsequent reporting, a summary text).

6.2 Management Response

A formal written reply is required. This should indicate specifically:

- i) That the recommendations are accepted, and actions are to be taken, including timescale and the names of individual officers who are specifically responsible for their implementation.
- ii) That specific recommendations are not accepted. The reason should be provided, and any alternative actions should be listed.

A reply is not required where there are no recommendations, or when a detailed response was made at draft stage.

At this stage the matter will be considered to be finalised, except where the actions / inactions proposed under (ii) appear unjustified or unclear whereupon if the Head of Internal Audit believes the rejection or alternatives are unreasonable, further discussions will take place, and if necessary the matter will be reported to the relevant Strategic Director, or through the Internal Audit reporting process to the Corporate Governance & Audit Committee.

Management should respond to Internal Audit reports as quickly as possible, and within the following maximum timescales established in FPRs.

Draft Reports: Within 2 weeks of issue

Final Reports: Within 4 weeks of issue

Failure to adhere to the above timescales will be reported to Corporate Governance & Audit Committee on a quarterly basis.

6.3 Audit Opinion

The report will express an opinion on the level of assurance that is offered by the system/ process at the time the audit work was undertaken. In respect of any audit work where the specific objective is to assess value for money, the opinion will reflect the assurance of the extent that current arrangements do or are likely to deliver value for money. Where value for money is one of several objectives, a separate opinion will be stated (on the grounds that a system may be highly effective in respect of the controls that it provides but does not do so in a way that is efficient).

Assurance level	Control Adequacy	Control Application
Substantial Assurance	A robust framework of all key controls exist that is likely to ensure that objective will be achieved	Controls are applied continuously or with only minor lapses
Adequate Assurance	A sufficient framework of all key controls exist that is likely to result in objectives being achieved, but the overall control framework could be stronger	Controls are applied but with some lapses
Limited Assurance	Risk exists of objectives not being achieved due to the absence of several key controls in the system	Significant breakdown in the application of several key and/or other controls
No Assurance	Significant risk exists of objectives not being achieved due to the absence of key controls in the system	Serious breakdown in the application of key controls

6.4 The assurance is judgement based, around the following criteria~~calculated as follows;~~

Assurance Level	Fundamental	Significant	Merits Attention
Substantial Assurance	There are no fundamental recommendations	There is no more than 1 significant recommendation	There are no more than 5 merits attention recommendations
Adequate Assurance	There are no fundamental recommendations	There are 2 to 4 significant recommendations	There are 6 to 10 merits attention recommendations
Limited Assurance	There are 1 or more fundamental recommendations	There are more than 4 significant recommendations	There are more than 10 merits attention recommendations
No Assurance	The number of fundamental recommendations made reflects an unacceptable control environment	Not applicable	Not applicable

Although the above is a general assessment model, there will be an element of discretion, as a single fundamental failing can, in certain circumstances, mean that an entire operation offers no assurance.

6.5 Prioritisation of Recommendations

Audit recommendations are allocated a priority rating to signify the risk, or level of internal control weaknesses, associated with the issue identified. The ratings used are: -

Priority Rating	Guidance
Fundamental	A recommendation, often requiring immediate action that is key to maintaining an appropriate control environment and thereby avoiding exposure to a significant risk to the achievement of the objectives of the system, process or location under review.
Significant	A recommendation requiring action that is necessary to improve the control environment and thereby avoid exposure to a risk to the achievement of the objectives of the system, process or location under review.
Merits Attention	A recommendation where action is advised to enhance control or improve operational efficiency.

6.6 Acting on Audit Reports

The responsibility for implementation of audit recommendations - and the right to reject Internal Audit advice - lies with the Service Director.

Where audit work identifies that a system or process is unsatisfactory (or the management actions proposed to a system which is generally satisfactory are considered inappropriate) Internal Audit will advise the relevant Director.

6.7 Consolidating Information to form Overall Opinions and Advice

In respect of key financial systems, the overall opinion on the system will often be informed by several discrete pieces of work.

In addition, Internal Audit will also analyse various discrete audit assignments to ascertain if information or advice of benefit to a wider audience of managers can be obtained and distributed.

6.8 Corporate Management Reporting

Internal Audit will produce

- i) A Quarterly Report on Internal Audit activity
- ii) An Annual Report on Internal Audit activity expressing an opinion on the integrity and appropriateness of all significant financial systems and business control systems.

The Quarterly Report will contain details of work which has been finalised and agreed in the period, including.

- i) Specific details of all investigations, special studies and reviews and non-standard work.

- lii) Summary information on systems and processes reviewed, and key reasons or findings when the system is providing only 'limited assurance' or 'no assurance').
- iii) Information about all follow up work; and
- iv) Information about any senior managers who have failed to comply with their obligations.

The report will indicate if.

- i) At the time of the audit, the system or process reviewed provided "substantial", "adequate", "limited" or "no" assurance
- ii) Management have not agreed the recommendations; and
- iii) In the case of follow up work if agreed recommendations have not been implemented.

The report will be presented to the Chief Executive and Strategic Directors and formally to the Corporate Governance & Audit Committee.

The Annual Report will use information from the Quarterly Reports and analyse this against systems and across Service areas to provide an opinion in respect of those systems and arrangements that have been subject to review during the year of.

- i) All major financial and business systems.
- ii) Other business control systems.
- iii) The overall quality of the operation of control systems in individual Service areas; and
- iv) An overall assessment of risk, and governance.

The report will be presented to the Chief Executive and Strategic Directors and formally to the Corporate Governance & Audit Committee.

7. Management responsibilities

- 7.1 It is the responsibility of operational managers, Heads of Service, Service Directors, Strategic Directors and Cabinet Members to implement and operate control systems which accord with statute, Council policy and organisation rules (e.g., Financial Procedure Rules).
- 7.2 They must ensure that appropriate records are kept and maintained as necessary to comply, and demonstrate compliance with their requirements, and ensure that staff employed are suitably skilled and trained.
- 7.3 Managers must ensure that appropriate access is granted for Internal Audit - to employees, premises, and records.
- 7.4 Accountability for the responses to the advice and recommendations of Internal Audit lies with management, who must either accept and implement the advice, offer an alternative action that addresses the deficiency identified (which is acceptable to Internal Audit), or formally reject it.
- 7.5 It is the responsibility of managers to establish systems and procedures to deter, prevent and detect fraud, corruption and bribery and suspected fraud, corruption and bribery.

Appendix 5

The Public Sector Internal Audit Standards (PSIAS)

The Public Sector Internal Audit Standards took effect from 1 April 2013 and apply to almost all public organisations in the UK. They are based on a development of international standards for internal auditing, largely developed by the Institute of Internal Auditors.

The document produced is mandatory guidance which states the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance.

These standards in local authorities are supplemented by additional guidance from CIPFA that has regulatory authority for local government in the UK. This includes substantial checklists of process and procedure.

The Public Sector Internal Audit Standards use several specific terms. These include terms which in the Council are as shown below in preparing this charter.

Term in the Public Sector Internal Audit Standards	Interpretation in this Charter Document
Chief Audit Executive	Head of Audit & Risk
Board	Corporate Governance & Audit Committee
Senior Management	Chief Executive and Strategic Directors

The Public Sector Internal Audit Standards document makes several statements as regards employment arrangements of the Chief Audit Executive. Whilst the UK standard and CIPFA identifies that some of the stated practices are not relevant to local government, these rules do look to transfer some employment related matters away from purely the executive arm of the organisation, by involving requirement of the Board.

Appendix 6

Statement of the responsibilities of management

1. It is the responsibility of management to establish sound and adequate operational systems and processes designed to achieve the organisation's objectives efficiently and effectively. It is their responsibility to organise operations efficiently in a way that achieves required outcomes, statutory compliance and adequate levels of internal control, including as appropriate matters such as the correct management of information. Senior managers must ensure that operational managers understand their role, operate systems as designed and intended, train staff appropriately in the required systems and procedures, and keep and retain adequate records. It is the responsibility of managers to establish systems and procedures to deter, prevent and detect fraud, corruption and bribery
2. In dealing with internal audit managers should.
 - Arrange appointments for planned audit work promptly.
 - Respond diligently and promptly to any unplanned visit or request for information.
 - Have appropriate records and accesses available as necessary to assist the audit work.
 - Have the appropriate staff available to describe any system or arrangement, and answer questions or resolve queries as the audit work progresses.
 - Be available to discuss the conclusions of audit work and any recommendations.
 - Reply promptly to any draft audit report.
 - Reply promptly to any final audit report.
 - Complete any necessary action plan indicating agreement or otherwise.
 - Implement agreed actions.
3. In respect of assurance, consulting or other activity (such as investigations) it is the role of Internal Audit to assess and report independently on systems and process and the efficiency and effectiveness of an activity. Whilst management will be consulted, and their comments considered, and can seek to offer advice and opinion, the auditor is responsible for production of the report based on the evidence that they have available. Managers are not required to agree with the conclusions reached.
4. Managers are not required to implement audit recommendations. Where they believe that a recommendation is inappropriate, they should say why. Where they would prefer an alternative action, they should propose this.
5. Although internal auditors will always attempt to be helpful, their role is to provide assurance and specific consulting, and it is not their prime role to offer advisory services, although they can often be a useful final arbiter if there is a lack of clarity about appropriateness of a procedure, or interpretation of a rule or requirement.
6. The Chief Executive, Chief Financial Officer (s 151 officer) and Monitoring Officer are ultimately responsible for the implementation of matters as required by their statutory responsibilities.

