

BABERGH DISTRICT COUNCIL

From: Head of Corporate Organisation	Report Number: M174
To: Overview and Scrutiny (Stewardship) Committee	Date of meeting: 19 March 2013

AUDIT SERVICES' CHARTER AND STRATEGY – 2013/14

1. Purpose of Report

- 1.1 To provide Members with a revised and updated version of the Audit Services' Charter and Strategy 2013/14, which reflects the current working arrangements of the service across both Councils and adherence with the new Public Sector Internal Audit Standards (PSIAS) – Appendix A.

2. Recommendation

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

The Committee is able to resolve this matter.

3. Financial Implications

- 3.1 There are no financial implications arising from the approval of these documents.

4. Risk Management

- 4.1 The key risk has been set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Adverse external comment if there is a failure to establish and maintain an up to date Audit Charter and Strategy.	Unlikely	Noticeable	To undertake, and have independently assessed, an annual quality assurance and improvement programme as a measure against prescribed standards within the Public Sector Internal Audit Standards (PSIAS).

5. Consultations

- 5.1 These documents have been discussed with the S151 Officers

6. Equality Analysis

6.1 Not applicable

7. Shared Service / Partnership Implications

7.1 A combined Audit Services’ Charter and Strategy also reflects the Internal Audit shared service arrangements between the two Councils.

8. Key Information

8.1 A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

8.2 The mandatory nature of the Public Sector Internal Audit Standards (PSIAS) must be recognised in the internal audit charter, refer to Appendix A. This is a formal document that defines the purpose, authority and responsibility for the internal audit activity.

8.3 The Charter is combined with the Audit Services Strategy for 2013/14. The Strategy element is the high level statement of how Audit Services will be delivered and developed in accordance with the Charter across both Councils.

8.4 This latest review has ensured that the Charter and Strategy reflect the current working arrangements of the service, but also the aspirations and developments necessary to ensure continuous improvement.

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

8.6 The Charter and Strategy will be made available to all employees through the intranet sites.

9. Appendices

Title	Location
(a) Audit Services’ Charter and Strategy 2013/14	Attached

10. Background Documents

10.1 Public Sector Internal Audit Standards

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JOINT AUDIT SERVICES CHARTER AND STRATEGY 2013/14

1. Introduction

- 1.1 This Charter describes the purpose, authority and principal responsibilities of the Council's Audit Service. The Strategy element is the high level statement of how Internal Audit (Audit Services) will be delivered and developed across both Councils in accordance with the Charter.
- 1.2 Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements; i.e. the control environment. Audit Services plays a vital part in advising each Council that these arrangements are in place and operating properly.

2. Approval and Annual Review of the Charter and Strategy

- 2.1 The Audit Service continues to face a challenging agenda to deliver the services each Council requires and to ensure it does so providing added value. The service needs to be able to react and adapt to the rapid pace of change which is taking place locally and nationally. It is therefore important that the Charter and Strategy is reviewed annually to ensure that it is relevant to the demands and responsibilities of the Service and support and link to both Council's corporate priorities.
- 2.2 The Corporate Manager – Internal Audit will be responsible for reviewing the Charter and Strategy and presenting any significant changes to Babergh's Overview & Scrutiny (Stewardship) Committee and Mid Suffolk's Scrutiny Committee.

3. Strategic Context

- 3.1 As funding reductions take effect the context for local government and for the overall governance, risk and control environment within which it operates is increasingly challenging.
- 3.2 Efficiency and transformation programmes are fundamentally altering the nature and structure of the Councils. Organisations are becoming increasingly knowledgeable in their understanding of risk management and prepared to accept greater levels of controlled risk in order to achieve their aims. There is greater transparency and scrutiny of public expenditure, coupled with the recent changes in public audit. These changes affect the overall governance, risk and control environment.

- 3.3 To give value in this context, Audit Services need to meet core responsibilities well, which are to provide appropriate assurance to Members and senior management on the effectiveness of governance, risk and control arrangements in delivering the achievement of each Council's priorities. Audit Services must identify and focus its efforts on what is significant, risky and important and have the right skills and resources to deliver. It also needs to ensure it complies with appropriate regulations and best practice in so doing.
- 3.4 Recognising this challenge the Corporate Manager – Internal Audit has developed an Operational Delivery Team (ODT) whose vision is to:

Focus on what is important	Audit Services need to deploy its resources where there is most value; this is towards the corporate objectives and priorities, the key risks which may prevent each Council from achieving their objectives and delivering responsibilities, and the important processes which facilitate this.
Outward looking and forward focussed	Being aware of national and local developments and of their potential impact on each Council's governance, risk management and control arrangements.
Give value by providing assurance	There is innate value in providing assurance to senior managers and Members that the arrangements they put in place are working effectively, and in helping managers to improve the systems and processes for which they are responsible.
Gets the right balance of independent support and challenge	Avoiding a tone which blames, but being resolute in challenging for the wider benefit of both Councils and the people of Babergh and Mid Suffolk.
Has impact	Delivering work which has buy-in and which leads to sustained change.
Is welcomed at the top table	Identifying and sharing organisational issues and themes, and for these to be recognised and taken on board in the interests of both Councils and the people of Babergh and Mid Suffolk.
Strengthens the governance of both Councils	Being ambassadors for and encouraging both Councils towards best practice in order to maximise the chances of achieving its priorities and avoiding surprises.

3.5 Each Council recognises the absolute importance of a strong and successful internal audit service and its key role as a cornerstone of corporate governance and as such each Council retains responsibility and accountability for the Internal Audit provision.

4. Statutory Role and Definition

4.1 The requirement for an internal audit function is contained in the Accounts and Audit Regulations 2011 which require both Councils to:

“undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.

4.2 Audit Services also assist the Section 151 Officers of each Council in discharging their delegated responsibilities under Section 151 of the Local Government Act 1972 which requires that Councils:

“make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.

4.3 Audit Services’ staff shall govern themselves by adherence to the Public Sector Internal Audit Standards (PSIAS). This replaces the Code of Practice for Internal Auditors in Local Government in the UK 2006. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing
- Code of Ethics, and
- International Standards for the Professional Practice of Internal Auditing.

4.4 Whilst Audit Services’ main role is to provide an opinion on the control environment, the PSIAS state that internal audit may also undertake non-assurance work at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources. This can include advice, training, facilitation and fraud or irregularity work.

4.5 Definition of Internal Auditing – *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*¹.

¹ Definition taken from the Public Sector Internal Audit Standards

5. Our Mission, Purpose and Values

5.1 Our mission is:-

“To deliver a high quality audit service providing valued independent assurance and helping to manage risk during and after major organisational development”.

5.2 Audit Services aims to operate in accordance with the ethos for internal audit set out by the PSIAS. As such Audit Services will aspire to:

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

6. Objectives and Scope of Audit Services

6.1 Internal Audit is an assurance function that provides an independent and objective opinion to each organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving each Council’s priorities. It objectively examines, evaluates and reports on the adequacy of each Council’s control environment as a contribution to their corporate governance arrangements and the proper, economic, efficient and effective use of resources. As mentioned earlier Audit Services also supports the Head of Corporate Resources and the Corporate Manager – Financial Services role under the Section 151 of the Local Government Act 1972 and the requirements of the Accounts and Audit Regulations.

6.2 All the Council’s activities, funded from whatever source, fall within the remit of Audit Services. It is the role of Audit Services to review, appraise and report on the effectiveness and efficiency of financial and other management controls, including risk management, governance and arrangements for providing best value for money.

- 6.3 The Corporate Manager – Internal Audit will define where audit resources are concentrated by taking account of each Council’s monitoring mechanisms, including risk management arrangements, for achieving their priorities.
- 6.4 The scope of internal audit work should cover all operational and management controls and should not be restricted to the audit of systems and controls necessary to form an opinion on the financial statements. This does not imply that all systems will be subject to review, but that all will be included in the audit needs assessment and hence considered for review following the assessment of risk.
- 6.5 As the mechanisms for delivery evolve and change, the scope of audit will need to diversify to encompass the new delivery methodologies. This will especially be relevant to services provided through partnership arrangements where the Corporate Manager – Internal Audit will decide in consultation with all relevant parties whether internal audit staff conducts the work to derive the required assurance themselves or rely on the assurance provided by other auditors. Appropriate access rights will be required to achieve these objectives.
- 6.6 Audit Services will provide resources to support both Council’s change agenda across the districts. Support will be provided to programmes and projects where auditing skills will be of benefit to the achievement of outcomes.
- 6.7 Audit Services may also conduct any special reviews, providing independent and objective services, including consultancy and fraud related work, requested by the Chief Executive, the S151 Officers, the Monitoring Officer, or other senior management. There will always be due consideration in planning this work to ensure that Audit Services maintains its objectivity and independence. The prioritisation of special work will also take account of the requirements of the approved audit plan.

7. Role of the Head of Audit Services

- 7.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has published “The Role of the Head of Internal Audit (HIA) in Public Service Organisations”. The following paragraphs are an extract:

Internal Audit is one of the cornerstones of effective governance. The HIA is responsible for reviewing and reporting on the adequacy of the authority’s control environment, including the arrangements for achieving value for money. Through the annual internal audit opinion and other reports the HIA gives assurance to the Leadership Team and others, and makes recommendations for improvement.

The HIA’s role is a unique one, providing objective challenge and support and acting as a catalyst for positive change and continual improvement in governance in all its aspects. The role is particularly important when authorities are facing uncertain or challenging times. Fulfilling the role requires a range of personal qualities. The HIA has to win the support and trust of others, so that he/she is listened to, and the HIA’s role as a critical friend means that sometimes difficult messages must be given and acted on.

8. Quality of Service

- 8.1 Audit Services operates in accordance with the PSIAS (refer to Section 4 – Statutory Role and Definition).
- 8.2 Internal review of work standards is undertaken through a system of managerial review involving the Corporate Manager – Internal Audit. This incorporates a review of all audit documentation and reports prior to issue and agreement of report to relevant management.
- 8.3 Opinions are canvassed from management responsible for activities under their review to obtain their satisfaction with the audit service provided.
- 8.4 Each Council's External Auditors keep the performance of Audit Services under continuous review to enable reliance to be placed on its work.
- 8.5 The PSIAS, which comes into force on 1st April 2013, will require the Corporate Manager – Internal Audit to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.
- 8.6 The quality assurance and improvement programme must include both internal and external assessments carried out by a suitable and adequate assessor with sufficient knowledge of internal audit practices.
- 8.7 To support such a programme the PSIAS will be accompanied by an Application Note which will include a checklist for measuring the performance of internal audit against the PSIAS.
- 8.8 The Corporate Manager – Internal Audit will communicate the results of the checklist to the Management Board and Babergh's Overview and Scrutiny (Stewardship) Committee and Mid Suffolk's Scrutiny Committee later in the year.

9. Allocation of Audit Services Resources and Skills Required

- 9.1 Audit Services must be appropriately staffed in terms of numbers, grades, qualification levels and experience. If a situation arises whereby the Corporate Manager – Internal Audit concludes that resources are insufficient then he must formally report this to both S151 Officers, the Chief Executive, and, if the position is not resolved, to Babergh's Overview and Scrutiny (Stewardship) Committee and Mid Suffolk's Scrutiny Committee.
- 9.2 The training and personal development needs of Audit Services' staff are identified through a review process and it is the responsibility of the Corporate Manager – Internal Audit to ensure that staff receive the appropriate professional, technical and personal development training.
- 9.3 The Corporate Manager – Internal Audit is responsible for appointing the staff for Audit Services and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.

9.4 All internal audit staff identify training needs as part of a review process and are encouraged to undertake appropriate training. This could include in-house courses, external seminars, Suffolk Working Audit Partnership meetings and events. They also continuously maintain and improve knowledge of best practice and current issues affecting the audit environment by reading trade publications, and any other relevant means to support their development. As Audit Services examines the whole of the control environment rather than just financial control, the aim is to ensure the skills mix within the service reflects this wider responsibility. Staff are expected to conform to current professional standards.

10. Reporting lines, Relationships and Independence of Internal Audit

10.1 The Corporate Manager – Internal Audit reports directly to the Head of Corporate Organisation and also has right of direct access to the Chief Executive, both Council's Section 151 Officers, the Joint Monitoring Officer and the Chairman of Babergh's Overview & Scrutiny (Stewardship) Committee and Mid Suffolk's Scrutiny Committee. Note: A joint governance review is currently being undertaken which may result in changes to the Charter and Strategy.

10.2 The annual audit plan is formulated in consultation with senior management and approved by the Management Team² and Babergh's Overview & Scrutiny (Stewardship) Committee and Mid Suffolk's Scrutiny Committee around the start of the financial year.

10.3 Progress reports of work undertaken including a summary of key audit findings are provided regularly to Babergh's Overview & Scrutiny (Stewardship) Committee and Mid Suffolk's Scrutiny Committee. The end of year report provides a summary of the work of Audit Services during the whole year, information on the performance of the section, and includes an opinion from the Corporate Manager – Internal Audit on the standard of internal control and probity within each Council.

10.4 Audit Services will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations.

10.5 All internal audit activities shall remain free of influence by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in rendering reports.

10.6 Audit Services shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, they shall not develop nor install systems or procedures, prepare records, or engage in any other activity which would normally be audited.

² Management Team consists of the Chief Executive, Directors and Heads of Service

10.7 Every effort will be made to preserve objectivity by ensuring that all Audit Services' staff are free from any conflicts of interest and do not undertake any non-audit duties.

10.8 Audit Services are involved in the determination of its priorities in consultation with those charged with governance. The Corporate Manager – Internal Audit has direct access and freedom to report in his own name and without fear or favour to all officers and Members and particularly those charged with governance.

11. Access

11.1 Audit Services has rights of access to all of the Council's records, information and assets that it considers necessary to fulfil its responsibilities, including those of partner organisations. Management will also ensure that Audit Services are provided with any information and explanations that it seeks in the course of its work.

11.2 In turn, Audit Services will comply with any requests from the external auditor for access to any information, files or working papers obtained or prepared during audit work that they need to discharge their responsibilities.

12. Resourcing and the Audit Service Provision

12.1 The Internal Audit service is provided in-house through a resource of 4 FTEs. The Service continues to foster partnerships with other organisations to deliver audit services. A clear link is made between Mid Suffolk District Council and Suffolk County Council providing a shared audit approach to those services provided by Customer Service Direct Limited for both organisations.

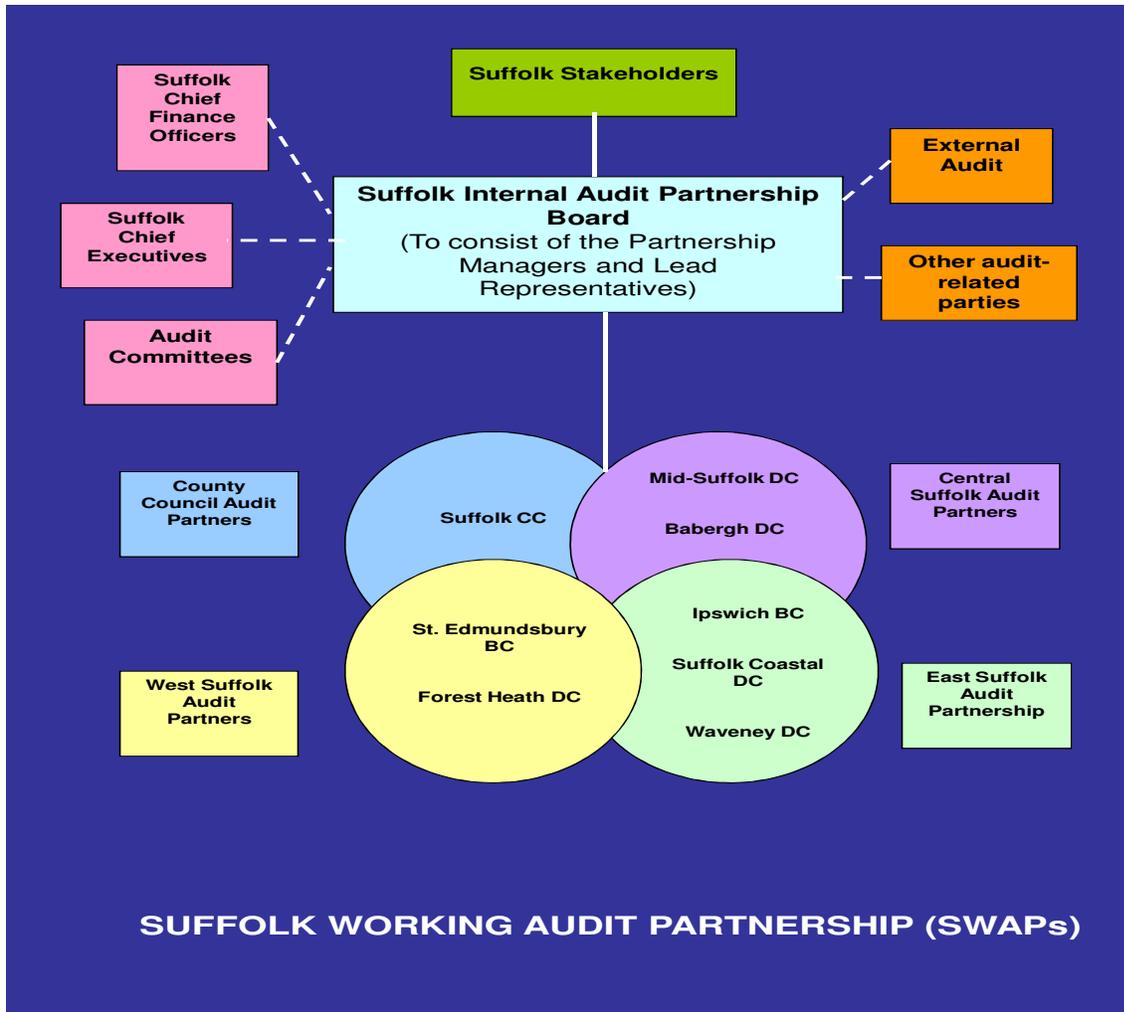
12.2 When there is staff turnover or a shortfall in resources the Audit Plan will be adjusted and reduced assurance provided or if the budget is available additional resources would be bought in on a temporary basis.

12.3 Risk increases during organisational change, and there is a need for Audit Services to be involved as new service delivery models are developed. However, this does mean fewer resources can be deployed on the assurance and compliance work across the Councils. At a time when structures are being flattened, internal controls can be weakened if this is not managed correctly.

12.4 The S151 Officers and Babergh's Overview & Scrutiny (Stewardship) Committee and Mid Suffolk's Scrutiny Committee will need to take a view on the priorities for 2013/14, but the recommendation of the Corporate Manager – Internal Audit is to ensure that there is resource allocated to ensuring that good governance continues throughout the development of new service delivery models. This will complement a programme of assurance work across both Councils.

12.5 Additionally, the Service works in partnership with Suffolk councils both County and Districts, known as the Suffolk Working Audit Partnership (SWAPs) with the aim of reducing costs and maximising quality by for example sharing best practice and joint provision of training courses.

12.6 Below is the model for the 'Suffolk Internal Audit Partnership Board';



13. Audit Planning

13.1 The Corporate Manager – Internal Audit will manage the provision of a complete audit service to both Councils. In discharge of his duty, the Corporate Manager – Internal Audit will adopt the following principles:

- Focussing assurance effort on the most important issues, the key obligations, outcomes and objectives, critical business processes and projects, and principle risks; picking coverage therefore from strategic and key operational aspects.
- Maintaining up to data awareness of the impact of the external and internal environment on control arrangements.
- Using a risk assessment methodology to determine priorities for audit coverage based as far as possible on management’s view of risk.

- Taking account of dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs, but recognising in a resource constrained environment there will be situations when not all needs can be met.
 - Identifying responsibilities for auditing any services which are delivered in partnership.
 - Being flexible so that the plan evolves through the year in response to emerging risks and issues.
 - Providing for the delivery of key commitments, such as work done in support of the External Auditor and to deliver governance and anti fraud responsibilities.
 - Including provision for responding to management requests for assistance with special investigations, consultancy and other forms of advice and guidance.
- 13.2 Any significant issues that may jeopardise the delivery of the plan or may change the plan during the course of the year will be identified and addressed and reported to the Overview & Scrutiny (Stewardship) Committee – Babergh and the Scrutiny Committee – Mid Suffolk. These Committees will be asked to approve, but not direct, the Joint Internal Audit Plan. The overriding principle is that the plan will be flexible to meet changing risks within the Councils and/or local government generally.

14. Reporting

- 14.1 The majority of audit assignments are the subject of formal reports. The primary purpose of Audit Services reports is to provide management with an opinion on the adequacy of the internal control system, and to inform management of significant audit findings, conclusions and recommendations.
- 14.2 The reporting principles are:
- Providing balanced reports which recognise both good practice and areas of weakness.
 - Reporting in a timely, brief, clear and professional manner.
 - Ensuring that reports clearly set out assurance opinions on the risks identified in planning work.
 - Always seeking management’s response to reports so that the final report includes a commitment to action.
 - Sharing reports with senior management and Members, identifying key themes and potential future risks so that our work has impact at the highest levels.
 - Sharing learning with the wider organisation with a view to encouraging best practice across both Councils.

15. Follow Up

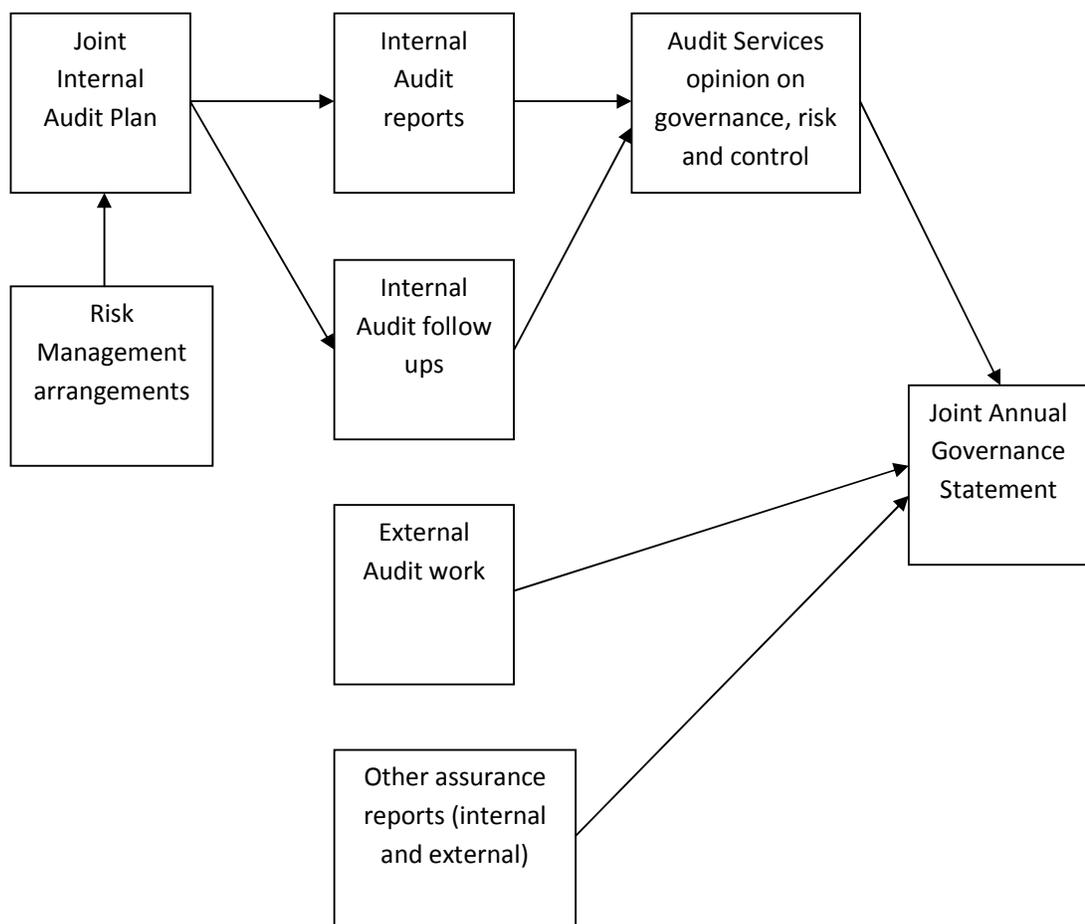
15.1 Each standard report contains a 'management response' to the recommendations made. This acts as an agreed action plan for management to implement. Audit Services carries out follow up work on areas assessed as 'Ineffective' and 'Poor' to ensure that actions are being addressed in a timely manner.

16. Giving Assurance on Governance, Risk and Control

16.1 This section sets out the principles Audit Services adopts in fulfilling its core responsibilities. These principles underpin Audit Services' ways of working by helping deliver work in alignment with the Audit Service's vision.

16.2 The Audit Service's annual opinion is a report based on evidence that is given each year. This opinion is important because it is a publicly reported statement on the effectiveness of governance, risk and control at each Council and is intended to give confidence that the Councils have sound arrangements in place. It summarises all the assurances that the Audit Service's team have provided in any one year.

16.3 The diagram below shows the cycle of audit planning, reporting and assurance gathering that delivers the Audit Services' opinion, which itself feeds into the production of the Council's Joint Annual Governance Statement.



16.4 The work of Audit Services is therefore key to this cycle, and the service must plan, conduct and report its work and maintain effective relationships with key stakeholders in this context.

17. Fraud, Corruption and Bribery

17.1 Managing the risk of fraud, corruption and bribery is the responsibility of management. Audit Services will assist management in the effective discharge of this responsibility, including investigating suspected frauds and irregularities where appropriate.

17.2 Audit Services play a vital preventative role in ensuring that systems and procedures are in place to prevent and detect fraud and corruption. Audit Services will investigate cases of suspected irregularity (with the exception of Housing Benefit cases, which are dealt with by the Benefit Fraud Partnership). In addition, Audit Services undertakes a leading role in co-ordinating the biennial National Fraud Initiative (NFI) data matching exercise across both Councils and with the Shared Revenues Partnership (SRP) and the Benefit Fraud Partnership working across a number of service areas to support staff in providing data and subsequently investigating and recording the results of matches.

17.3 Audit procedures alone, even when performed with due professional care cannot guarantee that fraud, corruption and bribery will be detected. Audit Services does not have responsibility for the prevention and detection of fraud, corruption or bribery. Audit Services will, however, be alert in all their work to risks and exposures that could allow fraud, corruption or bribery.

17.4 The Corporate Manager – Internal Audit must be informed of all suspected or detected fraud, corruption or improprieties so they may be considered in terms of the adequacy of the relevant internal controls, and be evaluated for the annual opinion on the control environment.

17.5 Any evidence or reasonable suspicions that an irregularity to funds, property or records should be reported immediately. All cases will be dealt with in accordance with the Council's Anti-Fraud and Corruption and Whistleblowing Policy.

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