

AUDIT AND GOVERNANCE COMMITTEE – 24 JUNE 2013

INTERNAL AUDIT CHARTER



Report of the Audit Manager – Shared Internal Audit Service

Ward(s) affected: All

1. Purpose of Report

- 1.1 To submit the Internal Audit Charter for consideration and approval.

2. Recommendations

- 2.1 That the attached Internal Audit Charter for the Shared Audit Service for Harrogate Borough Council and Craven District Council is approved.

3. Background Information

- 3.1 Under the new Public Sector Internal Audit Standards effective from 1 April 2013, it is a requirement that the purpose, authority and responsibility of internal audit is defined in a charter which must be submitted to senior management and the “board” (i.e. the audit committee in this context). Therefore, the Internal Audit Charter for the Shared Audit Service for Harrogate Borough Council and Craven District Council is attached for consideration and approval.
- 3.2 In respect of Harrogate, Internal Audit has had an Audit Charter for a number of years. It has been periodically reviewed and updated – the last occasion being in August 2010. Since then, the collaboration arrangements with Craven have developed with the three year shared service arrangement beginning in April 2012. A further review and update was therefore timely in any case.
- 3.3 The new Public Sector Internal Audit Standards provided further reason for an update at this time. The Standards are mandatory and took effect from 1 April 2013. One of the Standards requires that the purpose, authority and responsibility of internal audit activity must be defined in an internal audit charter which must be presented to senior management and the “board” which in this instance is the audit committee. The Standards say that the Charter must also:- define the term “board”, cover resourcing, define internal audit’s role in anti fraud work and include the arrangements for avoiding conflicts of interest.

- 3.4 Harrogate's Audit Charter has, therefore, been updated to also cover Craven District Council as Internal Audit is now a shared service and to ensure it complies with the requirements of the new Standards. The updated version is attached for consideration and comment. The update of the Charter was already identified as an action in order to comply with the new Standards. (See Appendix 2 to the report on the new Standards which was submitted to the Audit and Governance Committee in March).
- 3.5 The Charter was endorsed by the Shared Service Partnership Board at its meeting on 7 June 2013. (The Board consists of the Authorities' S151 Officers). The Charter is also being submitted to Harrogate's Governance Panel (the Authority's Audit Committee) and its Corporate Management Team.
- 3.6 For Harrogate, the Charter still refers to the roles and responsibilities of the post of Director of Resources in relation to Internal Audit. There is a reference in the Charter to the current interim arrangements with the Head of Financial Management acting-up, given the current vacancy in the post. Subject to the outcome of the Chief Executive's review of the Council's senior management structure, it may be necessary to submit a further update in due course.

4. Implications

4.1 Financial and Value for Money Implications

None

4.2 Legal implications

None

4.3 Contribution to Council Priorities

The delivery of an Internal Audit Service contributes to Council transformation.

4.4 Risk Management

The internal audit function is an integral part of internal control.

4.5 Equality Impact Assessment

The Council's Equality Impact Assessment Procedure **has been** followed. An Equality Impact Assessment **has not** been completed on the proposals as completion of **Stage 1- Initial Screening** of the Procedure identified that the proposed policy, strategy, procedure or function **does not have** the potential to cause negative impact or discriminate against different groups in the community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • rural isolation.

5. Consultations with Others

Shared Internal Audit Service Partnership Board, Harrogate Borough Council's Governance Panel and Corporate Management Team.

6. Access to Information : Background Documents

None

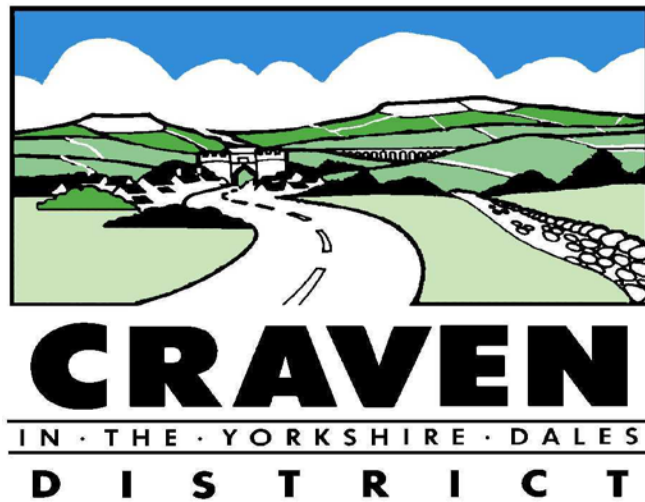
7. Author of the Report

Martin Helm, Audit Manager, Craven District Council and Harrogate Borough Council Shared Internal Audit Service.

Note: Members are invited to contact the author in advance of the meeting with any detailed queries or questions.

8. Appendices

Appendix A – Internal Audit Charter.



AUDIT CHARTER

JUNE 2013

Contents

	Page No
1. Introduction	1
2. Purpose of Internal Audit	1
3. Authority of Internal Audit	2
4. Responsibilities of Internal Audit	3
5. Code of Ethics	5
6. Audit Strategy	6
7. Scope	7
8. Independence	8
9. Reporting Arrangements	11
10. Audit Resources and Staff Training	12
11. Performance and Effectiveness	12
12. Due Professional Care	13

Appendices

1. Core Responsibilities and Audit Work	15
2. Reporting Arrangements	18
3. Organisation Chart	25

AUDIT CHARTER

1. Introduction

- 1.1 A new set of internal audit standards for the public sector has recently been published – the ‘Public Sector Internal Audit Standards’ or PSIAS for short. These took effect from 1 April 2013.
- 1.2 The PSIAS, together with the supporting Application Note for the local government sector, set out the proper internal audit practices which local authorities are required to put in place in order to comply with the Accounts and Audit Regulations. Therefore, complying with the PSIAS and the Application Note is a legal requirement for local authorities.
- 1.3 One of the Standards is that the purpose, authority and responsibility of the internal activity must be formally defined in an internal audit charter. The Standards also say that the Charter must be presented to senior management and the ‘board’ for approval. In the PSIAS, the term ‘board’ is defined as the “highest level of a governing body charged with the responsibility to direct and/or oversee the activities and management of an organisation”. In the context of local government internal audit, this is usually taken to mean the audit committee of a local authority.
- 1.4 Under the current collaboration arrangements, Internal Audit provides a shared service to Harrogate Borough Council and Craven District Council. This Internal Audit Charter therefore applies to both authorities. It was submitted to the Shared Service Partnership Board and to the respective corporate management teams and audit committees in June 2013 for consideration and approval.
- 1.5 The Charter contains various references to the role and responsibilities of Harrogate’s Director of Resources relating to Internal Audit. At the time of writing, the post is vacant, due to the retirement of the previous postholder. Interim arrangements are in place with Harrogate’s Head of Financial Management acting up.

2. Purpose of Internal Audit

- 2.1 The definition of internal auditing is:-
“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” (Public Sector Internal Audit Standards).
- 2.2 The purpose of internal audit is to promote best practice in governance and management. It does this by objectively assessing the adequacy of the controls put in place to manage the risks which, if they become a reality, means that business goals will not be achieved. On the basis of evidence-based examinations, internal audit gives assurance that arrangements and controls are working well or if not, identifies the potential consequences and recommends improvements.

- 2.3 A professional, independent and objective internal audit service is essential for good governance in local government. An effective internal audit service should:-
- Understand the whole organisation, its needs and objectives;
 - Be seen as a catalyst for improvement at the heart of an organisation;
 - Add value and assist the organisation in achieving its objectives; and
 - Be forward-looking – knowing where the organisation wishes to be and be aware of the national agenda and its impact.
- 2.4 A local authority must establish and maintain public confidence and trust in the way in which it carries out its business. An authority must therefore have good corporate governance arrangements in place to lead, manage and monitor its activities towards the achievement of its objectives and ensure that scarce resources are not wasted. Internal audit plays a key role in an authority's governance arrangements by the independent examination of these to ensure that they remain adequate and effective.
- 2.5 It is the responsibility of managers at Harrogate and Craven to identify risks and to establish and maintain effective arrangements to manage those risks and achieve business objectives. Internal Audit provides independent assurance to the two authorities that their respective systems and arrangements to manage their risk from fraud, systems failures or other causes are in place and are working properly.
- 2.6 Internal Audit can only provide reasonable assurance about the arrangements and controls examined. This does not imply infallibility. Internal Audit cannot be expected to examine every control, weakness or irregularity. Also, Internal Audit is not a substitute for management. It is for management to accept and implement Internal Audit findings – or accept the risks and consequences of not doing so.

3. Authority of Internal Audit

- 3.1 There are two principal pieces of legislation which prescribe the legal framework for internal audit within local authorities. These are:-
- Section 151 of the Local Government Act 1972 requires each local authority to make arrangements for the proper administration of its financial affairs and to nominate one of its officers as being responsible for the administration of those affairs. The work of an authority's internal audit function supports the nominated S151 Officer in fulfilling his/her responsibility.
 - Regulation 6 of the Accounts and Audit (England) Regulations 2011 requires local authorities to maintain an adequate and effective internal audit of their accounting records and of their system of internal control in accordance with proper practices in relation to internal control. Furthermore, under the Regulations, Members and Officers must make available such documents and records and supply such information and explanations as considered necessary by that authority's internal auditors for the purposes of the audit.

- 3.2 The following table sets out the practical arrangements at Harrogate and Craven on how these legislative requirements are met:

	Harrogate	Craven
Responsibility for the provision of an adequate and effective internal audit	Full Council – delegated to the Director of Resources.	Full Council – delegated to Corporate Head – Financial Management and S151 Officer.
Right of access to establishments, records and documents held by Officers and Members	Financial Procedure Rule 8.2	Joint Service Agreement between Harrogate and Craven, (Clause 5.2)
Right to require the production of cash, stores or other property owned or held by the Council	Financial Procedure Rule 8.2	Joint Service Agreement (clause 5.2)
Right to require and receive promptly such information and explanations considered necessary.	Financial Procedure Rule 8.2	Joint Service Agreement (Clause 5.2)
Right of direct access to the Chief Executive and/or Monitoring Officer on any matter concerning the internal audit of the Council's activities	Financial Procedure Rule 8.3	Joint Service Agreement (clause 5.2)
Monitoring the effectiveness and performance of Internal Audit	Audit Committee (Governance Panel of the Overview Scrutiny Commission) Partnership Board	Audit Committee (Audit and Governance Committee) Partnership Board

4. Responsibilities of Internal Audit

- 4.1 The core responsibilities of Internal Audit for Harrogate and Craven are:-

- To promote the benefits of good governance throughout the two authorities;
- To work with others who also have a responsibility to promote good governance in their authority;
- To make recommendations to improve each authority's governance arrangements where necessary;
- To promote the highest standard of ethics across each authority based on the principles of integrity, honesty, objectivity, competence and confidentiality;
- To give advice on the control arrangements and risks relating to proposed policies, programmes and projects;
- To review the arrangements relating to proposed major projects, programmes and policy initiatives.

4.2 Internal Audit therefore appraises, reviews and reports on:

- The completeness, reliability and integrity of information;
- Efficiency and effectiveness of the controls. This is to ensure compliance with policies, plans, procedures, laws and regulations – and that they are proportionate to risk;
- The means of safeguarding each Council's assets and interests;
- The policies, procedures and operations in place to identify, assess and manage the risks to achieving the authority's objectives;
- The economy, efficiency and effectiveness with which resources are employed;
- Whether operations are being carried out as planned and objectives and goals are being met.

Internal Audit's remit is each authority's governance, risk management and control arrangements – both financial and non-financial.

4.3 The Audit Manager is required to produce an annual report for each authority which gives an overall opinion on the adequacy and effectiveness of the internal control environment. This 'opinion' is not simply a 'view', 'comment' or 'observation', it does mean that Internal Audit will have done sufficient evidenced work to form a supportable conclusion about the activity it has examined. This opinion informs the Annual Governance Statement which each Council must publish on an annual basis. Each Council has to review its governance arrangements in order to give assurance on their effectiveness and produce an action plan to address and identify significant weaknesses. The Annual Statement is the end product of each review.

5. Code of Ethics

- 5.1 In carrying out their work, the Internal Auditors conform to the following Code of Ethics. This is necessary so that Internal Audit's opinions on the quality of the risk management, control and governance arrangements in place can be trusted.

5.2 Integrity

The integrity of the Internal Auditors establishes trust and reliance on their judgement. This means that the Internal Auditors:-

- Perform their work with honesty, diligence and responsibility;
- Observe the law and make disclosures expected by the law and the internal audit profession;
- Will not knowingly take part in illegal acts or engage in activity which will be discreditable to the profession of internal auditing or Harrogate Borough Council or Craven District Council.
- Will respect and contribute to the legitimate and ethical objectives of Harrogate Borough Council and Craven District Council.

5.3 Objectivity

Internal Auditors make a balanced assessment of all the relevant circumstances in reaching judgements on the areas or processes being examined. Also, this means that the Internal Auditors are not unduly swayed by their interests or by others in forming judgements.

In particular, the Internal Auditors:-

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased judgement;
- Shall not accept anything which impairs or could be perceived to impair their professional judgement;
- Shall disclose all material facts known to them which if not disclosed may distort the reporting of activities under review.

5.4 Confidentiality

The Internal Auditors respect the value and ownership of the information they receive and do not disclose it without appropriate authority unless there is a legal or professional obligation to do so. This also means that the Internal Auditors do not use information received in the course of their duties for personal gain or in any way which would be illegal or against the legitimate and ethical objectives of Harrogate or Craven.

5.5 Competency

This means that the Internal Auditors:-

- Only undertake work for which they have the necessary knowledge, skills and experience;
- Perform work according to the ruling professional standards at the time – currently the Public Sector Internal Audit Standards effective from April 2013.
- Should continually improve their efficiency and effectiveness.

5.6 The Internal Auditors also have regard to the Nolan Committee's Seven Principles of Public Life in carrying out their work (Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, Leadership). In addition, the Internal Auditors comply with Codes of Conduct and behaviour of the professional institutes or associations to which they may belong.

6. Audit Strategy

6.1 The Audit Manager is responsible for managing the provision of the Shared Internal Audit Service for Harrogate Borough Council and Craven District Council.

6.2 In discharging this responsibility, the Audit Manager:-

- Prepares risk-based audit plans for the two Authorities in consultation with the respective management teams, the external auditors currently Mazars for both authorities, the Internal Audit Team itself and the audit committees;
- Submits the final versions of the respective plans to the Shared Service Partnership Board, the 'authorities' corporate management teams and audit committees for final consideration and approval;
- Ensures the planning, management and supervision of audit work with the objective of delivering the audit plan for the year in question according to the timescales set and that the required professional standards and proper internal audit practices are met;
- Ensures that audit assignments are undertaken with due professional care. In particular, that audit work is carried out and with due regard to the Code of Ethics set out above;
- Ensures that information and evidence gathered during the course of an audit is recorded according to required standards;
- Makes suitable arrangements for the preparation of internal audit reports, depending on their purpose and intended recipient(s);
- Makes proper arrangements for the follow-up of recommendations and management action arising from the individual audit assignments and that appropriate escalation procedures are in place if agreed recommendations have not been implemented.

- 6.3 In determining the risk based audit plans, the starting point is to review each Council's strategic objectives, how it plans to achieve these, how risks are captured in service improvement plans/risk registers and the actions being taken to mitigate these. Audit Strategy also depends on the extent of alternative sources of assurance and the resources and skills needed and available to deliver it.
- 6.4 Internal Audit and management then work together to identify and agree those risks which could prevent or impede the delivery of key objectives. Audit work then focuses on the controls being relied upon to manage or mitigate those risks. This approach provides for Internal Audit to avoid duplicating processes already carried out by management and provides the basis for challenging management's processes and conclusions.
- 6.5 Available audit resources are then factored in to produce the Audit Plan for each authority. Any shortfall between which audits should be undertaken on the basis of risk assessment and what can be carried out given the limited available audit resources is reported to the relevant audit committee, together with the risks of not being able to undertake the work in question.
- 6.6 A necessary condition for Internal Audit's effectiveness is the existence of good working relationships with its customers, essentially colleagues in other sections and departments of the two authorities, the senior management teams in each case and Members. In carrying out their work, the Internal Auditors will need to provide for and maintain good working relationships with their customers.
- 6.7 Internal Audit also works closely with each Council's external auditors, currently Mazars in each case. This is both in planning work to avoid duplication to make the best use of scarce audit resources and in sharing information on audit findings.

7. Scope

- 7.1 Internal Audit's scope is the risk management and governance arrangements at each Council, together with the whole system of controls established by management, and not just the financial control systems. As described above, selection of the areas to audit and the frequency of review is determined by the results of each Council's own risk management processes and by the Section's own risk assessment as appropriate. Account is also taken of assurance work undertaken by others – both within and external to each Council. The objective is to avoid duplication and to use resources efficiently.
- 7.2 It is the responsibility of management to put in place arrangements for preventing and detecting fraud and corruption. The role of Internal Audit is to given an objective view on the adequacy and effectiveness of these arrangements. In order to achieve this, Internal Audit undertakes proactive work in areas considered to be at relatively high risk from fraud. Internal Audit also carries out reactive work by giving advice to management on investigations of suspected fraud and corruption. In the more complex cases, Internal Audit takes the lead on investigations. Internal Audit is also responsible for promoting awareness about fraud and corruption for example on which are the more risky areas and on what to look out for.

- 7.3 Internal Audit does not undertake benefit fraud investigation work. This is the responsibility of dedicated benefit fraud staff at each authority who now work under the umbrella of the national Single Fraud Investigation Service.
- 7.4 The external auditors, Mazars, are responsible for reviewing and certifying the major grant claims. Under agreed joint-working arrangements, Mazars is able to rely on the systems work carried out by Internal Audit for general assurance on the validity and accuracy of these claims. On the relatively minor grant claims, the Audit Manager is increasingly being asked to certify that expenditure was incurred for eligible purposes. This is because the external auditors no longer audit all grant claims as they concentrate on the major ones (e.g. housing benefits).
- 7.5 Relating to the review of performance, Internal Audit's role is to give independent assurance on management arrangements to ensure that each Council complies with statutory processes and procedures. Internal Audit also reviews the accuracy and validity of each Council's key performance indicators if requested.
- 7.6 Under the new definition of Internal Audit, the Section can also undertake consultancy work – provided there is no conflict of interest and that any significant commissions do not prejudice assurance work.
- 7.7 Internal Audit core responsibilities and a list of the categories of work is attached at Appendix 1.

8. Independence

- 8.1 Internal Audit must be and be seen to be independent in order to achieve its objectives. Independence means that internal auditors can review internal controls in an impartial and unbiased manner and make professional judgements and opinions which is essential to the proper conduct of audits. It also enables Internal Audit to report to all levels within each authority without 'fear or favour'. Internal Audit should have no operational responsibilities. For the individual auditor, independence is, in essence, an attitude of mind, characterised by an objective approach and by integrity (see also the above section on the Code of Ethics which the Internal Auditors are required to follow).
- 8.2 The independence of Internal Audit is achieved by:

Organisational Arrangements

- Internal Audit not having any executive or operational responsibilities
- Internal Audit determining its own priorities in consultation with management and others
- The Audit Manager reporting direct to the Director of Resources at Harrogate and the Corporate Head of Financial Management and S151 Officer at Craven and not through intermediaries

- The Audit Manager having the right of direct access to the Monitoring Officer at each Council
- The Audit Manager having the right of direct access to the Chief Executive at each Council. Programmed meetings are held every 6 months to consider audit issues. The Audit Manager can also see the respective Chief Executive at any time if major concerns arise between the programmed meetings
- The Audit Manager's right of direct access to each Council's committees and appropriate individual Members – to report on significant audit issues in his or her own name without fear or favour. In particular, the Audit Manager has the right of direct access to the audit committee chairs of Harrogate and Craven respectively
- The right of access of Internal Auditors to all the establishments and to all records and documents held by employees and Members which relate to the activities of each Council for the purpose of the audit in question
- Internal Auditors having the authority to require and receive promptly such explanations as are considered necessary concerning any matter under examination

Status of the Audit Manager

- The Audit Manager is a senior manager
- The Audit Manager reports directly to the Director of Resources at Harrogate and to the Corporate Head of Financial Management at Craven who are members of the respective corporate management teams
- The Audit Manager can initiate discussions in his/her own name with all levels of management within each Council – up to and including the Leader on the Member-side and the Chief Executive on the employee-side.
- The Audit Manager is professionally qualified and suitably experienced.

Individual Auditors

- Internal Auditors having an objective attitude of mind and being in a sufficiently independent position to be able to exercise judgement, present recommendations and express opinions with impartiality
- Internal Auditors not normally auditing activities for which they have had recent responsibility or involvement – for example in a previous post
- Internal Auditors being rotated periodically between audits
- The Audit Manager taking steps to avoid potential conflicts of interest when allocating work

- Internal Auditors not undertaking non-audit duties
- Internal Auditors being kept free from undue influences, which could modify or restrict the scope or conduct of audit assignments or significantly affect audit judgement as to the content of an internal audit report
- Internal Auditors being required to register potential conflicts of interest in accordance with the set procedures.

8.3 There is an issue on independence relating to the role of the Audit Manager at Harrogate Borough Council. As a senior officer within the Resources Department, the Audit Manager has in the past undertaken tasks which were not directly related to the role of the Head of the Internal Audit function. Such areas of work included:

- Developing corporate strategies and producing relevant documents for the approval of Members
- Providing financial advice and consultancy on major projects and schemes
- Representing the Department of Resources on corporate working groups
- Undertaking special investigations

8.4 Under the new Public Sector Audit Standards, conflicts of Interest should be avoided which is a greater level than under the previous Code of Practice which said that conflicts of interest should be avoided or managed.

8.5 Therefore it is important that the independence of the role of the Audit Manager is not compromised and that it is clear to all concerned, both Members and Officers, when exceptionally he or she is acting in a non-audit capacity. In order that there is no misunderstanding, when acting in a non-audit capacity, the Audit Manager will ensure that everyone concerned in a particular circumstance understands that this is the case. Also, where the Audit Manager has acted in a non-audit capacity, the audit of these areas is undertaken by another member of the Audit Team reporting directly to the Director of Resources as necessary.

8.6 It is also understood that the involvement of the Audit Manager in a non-audit role in particular projects does not remove the need for the internal audit of these projects.

9. **Reporting Arrangements**

9.1 The aims of reports on individual audit assignments are:

- (i) to give an independent opinion on the risk and controls of the area under review, building up to the annual opinion on the control

environment.

- (ii) to challenge management where it appears to Internal Audit that there are more efficient ways of working.
- (iii) to prompt management to implement agreed recommendations which lead to improvements in value for money, performance and on the control environment.
- (iv) to identify any areas where controls could be made more efficient.
- (v) to provide a formal record of the work done, points arising and of the agreements reached with management.

The standards required for undertaking audit assessments and producing audit reports are set out in the Internal Audit Manual.

9.2 At a more strategic level, the new Public Sector Internal Audits Standards require that the 'Chief Audit Executive' reports to the 'board'. In the context of the Shared Internal Audit Service for Harrogate and Craven, the 'Chief Audit Executive' is the Audit Manager. The 'board' is the 'highest level of governing body charged with the responsibility to direct and/or oversee the activities or management of the activity concerned'. In this context the 'board' is for the most part the respective audit committees of each of the authorities – the Audit and Governance Committee at Craven and the Governance Panel at Harrogate.

9.3 The Audit Manager submits the following reports to the respective audit committees to comply with the 'functional' reporting requirements:-

- To approve the Internal Audit Charter;
- To approve risk-based audit plans;
- For monitoring the performance of Internal Audit against the approved Plan and other matters;
- On whether there are sufficient resources available;
- On whether there are inappropriate limitations on the scope of internal audit activity;
- Confirmation annually that the organisational independence of Internal Audit is maintained;
- An annual report on internal audit activity relevant to each authority which compares actual activity to the approved plan and gives an overall opinion on the adequacy and effectiveness of the risk management, governance and control arrangements in place.

9.4 Under the new Standards, the 'board' should also approve the remuneration of the 'Chief Audit Executive'. For this particular aspect, as the Audit Manager is an employee of Harrogate Borough Council, the 'board' is defined as Harrogate's Chief Executive as Head of Paid Service.

9.5 Attached at Appendix 2 is a more detailed consideration of the reporting arrangements to officers and members of each authority.

10. Audit Resources and Staff Training

10.1 The staffing structure for the Internal Audit function is a mix of professionally qualified and technical posts with a mix of specialisms and experience to reflect the varied types of audit work. The structure as at June 2013 is attached at Appendix 3. The structure is subject to periodic review to make sure it continues to be relevant and the most appropriate to meet business needs and that resources are sufficient to achieve approved plans.

10.2 The Audit Manager will make suitable arrangements for the review of the development and training needs of all internal auditors and the meeting of those training needs, whether internally or by attendance at external training events. In essence, training needs are identified as part of the performance appraisal arrangements operating within the Section. In addition, all internal auditors have a personal responsibility to undertake a programme of continuing development to maintain and develop their skills.

11. Performance and Effectiveness

11.1 A performance management framework is in place so that Internal Audit can demonstrate that:-

- It meets its aims and objectives
- It is efficient and effective
- It complies with professional standards and best practice
- It is continuously improving
- It adds value

The framework is composed of three elements.

11.2. Quality assurance of audit work

The following arrangements are in place:

- An audit manual sets out the standards required, procedures and points of practice to guide auditors in undertaking their duties and responsibilities
- Audit work is allocated to staff on the basis of skills, competencies and experience
- The supervision of staff throughout audits, to monitor progress and to coach auditors where appropriate

- The review of audit work during each stage of the audit process, to ensure that due professional care has been exercised.

11.3 Performance of Internal Audit

Arrangements here include:

- The use of targets and performance indicators (e.g. actual costs against budget, proportion of audit plan completed, audits completed within allocated time, sickness levels).
- benchmarking.
- client satisfaction surveys.
- views of chief officers and heads of service.

11.4 Effectiveness Reviews

There are four aspects:

- annual self-assessment to ensure that Internal Audit continues to comply with the Public Sector Internal Audit Standards and their application to local government.
- an annual review by Mazars on the reliance which can be placed on Internal Audit's work for the purposes of Mazars annual audit opinions on the accounts of Harrogate and Craven respectively.
- the annual review of effectiveness in order to comply with the Accounts and Audit (England) Regulations 2011.
- an external assessment by a suitably qualified independent assessor at least once every 5 years to comply with the requirement of the Public Sector Internal Audit Standards.

12 Due Professional Care

12.1 In undertaking their work, the Internal Auditors apply the care and skill expected of a reasonably prudent and competent internal auditor. Note that this does not mean infallibility.

12.2 In exercising due professional care, the Internal Auditors consider:-

- the extent of the work needed to achieve the objectives of the review in question.
- the relative complexity, materiality or significance of the area under review.

- the adequacy and effectiveness of the governance, risk management and control process.
- the probability of significant errors, fraud or non-compliance.
- the cost of providing assurance relative to the potential benefits.

Exercising due professional care does not provide an absolute guarantee that all significant risks have been identified.

12.3 The Auditors also consider whether the use of technology-based audit techniques would benefit a particular audit. Internal Audit uses the IDEA Interrogation Software package. Where appropriate this means that greater weight can be attached to the audits opinion as this is based on testing the whole data population for the area under review – rather than selected samples.

12.4 Where the Internal Auditors undertake consultancy work, due professional case means that they consider:-

- The needs and expectations of the clients – including the nature, timing and communication of the results.
- The relative complexity and extent of the work needed to achieve the objectives of the consultancy commission in question.
- The cost of the commission relative to the potential benefits.

CORE RESPONSIBILITIES AND AUDIT WORK

1. Core Responsibilities

- 1.1 Giving assurance on the control environment. This includes risk information management, governance and internal controls across all systems – not just the financial ones.
- 1.2. Reviewing the adequacy of key corporate arrangements including e.g. risk strategy, risk register, anti fraud and corruption strategy, corporate plan.
- 1.3 Producing an evidence based annual internal audit opinion on each Council's control environment.
- 1.4 Identifying both strengths and areas for improvement.
- 1.5 Producing clear reports with focused recommendations with clear responsibilities assigned.
- 1.6 Monitoring Internal Audit recommendations and following up where action is not taken.
- 1.7 Working closely with others to ensure that all sources of evidence are used. Where relying on others, clarifying the degree and basis for the reliance.
- 1.8 Reviewing significant partnership arrangements and major services provided by third parties and the controls in place to promote and protect each Council's interests. Assessing whether lines of responsibility and assurance are clear.
- 1.9 Liaising closely with Mazars, each Council's external auditors, to share knowledge and to use audit resources most effectively.

2. Internal Audit Work

- 2.1 Review of Internal Controls – this includes both the major financial systems of each Authority and also the major non-financial risks.
- 2.2 Regularity Audits/Risks assessed systems – which are generally a review of establishments (e.g. leisure centres) or services/functions (e.g. refuse collection) to examine the efficiency and effectiveness of both financial and operational controls.
- 2.3 Cash audits – review of the controls for the collection, banking and accounting for cash collected at various sites (e.g. car parks, cash offices, leisure centres, games in parks)
- 2.4 Contract Audit – which includes:

- review of systems and controls established by departments to manage risks and comply with both external and internal requirements, e.g. the EU Procurement Directives each Council's Contract Procedure Rules and any Codes of Practice on Project Management.
- review of procurement arrangements for major schemes and projects
- final account audits
- provision of advice and guidance – for example to teams established to manage major capital projects

2.5 Computer Audit – which includes:

- review of controls established by management to manage the risks of accidental or deliberate threat to each Council's Information Technology
- review of controls and procedures to determine the extent to which they ensure compliance with relevant good practice, standards and legislative requirements
- review of procedures for safeguarding access to and use of data and information held on computers.
- review of the arrangements for acquiring IT facilities
- review of the procedure for the management and control of the development of bespoke systems and the adaptation of packaged software
- review of the effectiveness and integrity of controls within computerised systems

2.6 The investigation of major allegations of irregularity, fraud and corruption in consultation with the Department concerned. (NB Internal Audit is not responsible for preventing and detecting fraud and corruption).

2.7 Benefit Fraud – Internal Audit is not responsible for investigating individual cases of benefit fraud as each Council has dedicated staff for this who work under the umbrella of the new national Single Fraud Investigation Service (SFIS).

2.8 Corporate Governance – review of the adequacy and effectiveness of each Council's corporate governance arrangements and compliance with these. (This is the framework of accountability to service users, other stakeholders and the wider community within which each Council takes decisions and leads and controls its functions to achieve its objectives)

- 2.9 Risk Management – review of the adequacy and effectiveness of each Authority's arrangements to identify, assess and manage risks to the achievement of the Authority's objectives.
- 2.10 Performance Indicators – review of the effectiveness of the management arrangements for calculating performance indicators and checking their accuracy and validity.
- 2.11 Provision of financial advice and consultancy as required.

REPORTING ARRANGEMENTS

1. Introduction

The purpose of this Appendix is to set out the reporting arrangements for the Shared Internal Audit Service for Harrogate BC and Craven DC. Generally, Internal Audit reports to “those charged with governance”.

2. Roles and Responsibilities

The following table sets out the position for each Authority.

Responsibility	Harrogate	Craven
Overall responsibility for provision of an effective internal audit service	Full Council	Full Council
Chief Officer with delegated responsibility for provision of internal audit	Director of Resources (S151 Officer)	Corporate Head Financial Management (S151 Officer)
Audit Committee (approves audit plans, monitors performance, receives audit reports)	Governance Panel (1) (of the Overview and Scrutiny Commission)	Audit and Governance Committee
Coordinating/advisory role	Partnership Board (2)	Partnership Board (2)
Authority-wide advisory/monitoring and review roles at Chief Officer level	Corporate Management Team	Corporate Leadership Team

Notes

1. The Governance Panel does not, strictly speaking, have any decision-making powers as constitutionally; it is part of Harrogate’s Overview and Scrutiny arrangements. For some purposes therefore, “those charged with governance” also includes the Council’s General Purposes Committee.

2. The Partnership Board consists of the two S151 Officers of Harrogate and Craven. When the two officers meet as a Partnership Board, their role is essentially advisory and to coordinate internal audit activity between the two authorities. The Partnership Board does not have the power to make decisions as such. However, individually, the two S151 officers do have powers to make decisions relating to the provision of effective internal audit within their respective remits and delegated authorities when acting for own Councils.

3. Requirements of the Public Sector Internal Audit Standards

The Standards require that the “Chief Audit Executive” reports “functionally” to the “Board”.

The “Chief Audit Executive” is the person in a senior position responsible for effectively managing internal audit activity. For the Shared Service, this is the Audit Manager. The “Board” is the highest level of governing body charged with the responsibility for managing/overseeing the activity in question. In this context, there are two “boards” for the most part – in effect the audit committees of the two authorities. Examples of “functional” reports include: approving the Internal Audit Charter, approving audit plans, reviewing audit performance relative to approved plans and other matters, ensuring that audit resources are sufficient and that there have been no inappropriate scope limitations.

3. Harrogate – Reporting to Officers

3.1 Director of Resources

Internal Audit reports to the Director of Resources as the chief officer responsible for internal audit matters. The Director has delegated responsibility for maintaining an adequate and effective internal audit of the Authority’s accounting records and control systems. The Director of Resources is the officer designated by the Council under S151 of the Local Government Act 1972 to be responsible for ensuring the proper administration of the Authority’s financial affairs.

Audit Planning

The Audit Manager submits reports on risk assessment, audit strategy and audit plans as required.

Monitoring

The Audit Manager reports to the Director on a quarterly basis (typically April, July, October, January) on progress against the approved audit plan, on key findings on the efficiency and effectiveness of internal controls, on matters of audit significance and on Internal Audit efficiency and effectiveness and on financial performance against Internal Audit’s approved budget.

Matters of Audit Significance

Internal Audit has a right of access to the Director to report on matters of audit significance outside the framework of formal meetings.

Partnership Board

In addition, the Audit Manager reports to the Director in his/her role as a member of the Shared Service Partnership Board. This meets twice a year typically in June and November.

3.2 Chief Executive

The Audit Manager has a direct right of access to the Chief Executive to report matters which he/she consider should be brought to the attention of the Chief Executive.

The Audit Manager informs the Chief Executive where there is significant audit criticism of the Department of Resources in order to minimise potential conflicts of interest and preserve audit independence.

The Audit Manager meets the Chief Executive twice a year (typically in July and January) to consider significant audit issues arising from internal audit work in departments, and at other times as and when necessary.

3.3 Monitoring Officer

The Audit Manager has a direct right of access to the Council's Monitoring Officer concerning items of expenditure or other matters arising during the course of audit work which appear to be unlawful.

3.4 Corporate Management Team

The Audit Manager submits an Annual Report in June of each year and a progress report on the current year's Audit Plan in December of each year.

3.5 Directors and Departmental Management Teams

In February/March each year, the Audit Manager consults individual Directors and their DMTs on the proposed audit plan for their respective departments for the forthcoming year.

Internal Audit submits reports to Directors and heads of service on progress against the audit plan, on matters of audit significance and on findings, conclusions and recommendations from audit work as required and in accordance with established protocols.

3.6 Officers

Internal Audit consults with and reports to relevant officers in departments on the planning, progress made, findings and recommendations made on individual audits as required and according to established arrangements.

4. Harrogate - Reporting to Members

4.1 Cabinet and Individual Cabinet Members on Matters of Audit Significance

If a particular audit issue is so serious such that Members need to be informed, then the Audit Manager reports to the Cabinet as a whole or the relevant individual Cabinet Member, as considered appropriate according to the circumstances of each case. Reports will usually be submitted in the name of the Director of Resources or the Chief Executive if, for example, the Department of Resources is implicated.

In circumstances where the Audit Manager believes that a report should be submitted to Members on a significant issue but both the Director of Resources and the Chief Executive take the view that a report should not be submitted, the Audit Manager has the right of direct access to report in his/her own name to the Cabinet as a whole or the appropriate individual Cabinet Member. In these circumstances, the Director of Resources and the Chief Executive would be expected to justify their positions.

4.2 Governance Panel

The Governance Panel is the 'audit committee' for the Council and is to all intents and purposes the "Board" for the purposes of the Public Sector Internal Audit Standards for Harrogate. As such, the Audit Manager submits reports on:

the terms of reference for Internal Audit

Internal Audit strategy and the planned use of resources

Audit plans and progress against these plans

the performance of Internal Audit

key issues arising from the work of Internal Audit and the implications of findings and audit opinions

the work done, findings and conclusions arising from individual audits where only "partial" or no assurance can be given that internal controls are sound and effective

the annual report. This includes:

- (i) an opinion on the overall adequacy and effectiveness of the Council's internal control environment
- (ii) a summary of the audit work undertaken to formulate that opinion
- (iii) matters considered to be particularly relevant for the preparation of the Annual Governance Statement.

- (iv) a comparison between the work actually undertaken and the work planned
- (v) commentary on the performance of Internal Audit and on compliance with the professional standards set out in the Public Sector Standards for Internal Audit.

4.3 Chair of the Governance Panel

The Audit Manager also periodically meets privately with the Chair of the Governance Panel to consider significant audit issues.

5. Craven – Reporting to Officers

5.1 Corporate Head of Financial Management

The Audit Manager reports to the Corporate Head of Financial Management as the Chief Officer with delegated responsibility for maintaining an adequate and effective internal audit of the Authority's accounting records and control systems. The Corporate Head of Financial Management is the officer designated by the Council under S151 of the Local Government Act 1972 to be responsible for ensuring the proper administration of the Authority's financial affairs.

The Audit Manager reports on:-

Audit planning – risk assessment, audit strategy and audit plans.

Monitoring – on progress against the approved audit plan on key findings, on the efficiency and effectiveness of internal controls and on matters of audit significance and on Internal Audit efficiency and effectiveness.

In addition, the Audit Manager also reports to the Corporate Head in his/her role as a member of the Shared Service Partnership Board.

5.2 Chief Executive

The Audit Manager has a direct right of access to the Chief Executive to report matters which he/she considers should be brought to the attention of the Chief Executive.

The Audit Manager has periodic meetings with the Chief Executive (typically twice a year) to discuss significant audit issues.

5.3 Monitoring Officer

The Audit Manager has a direct right of access to the Council's Monitoring Officer concerning items of expenditure or other matters arising during the course of audit work which appear to be unlawful.

5.4 Corporate Leadership Team

The Audit Manager submits an Annual Report in June of each year and progress reports on the current year's audit plan as appropriate.

5.5 Senior Management and Other Officers

Internal Audit consults with and reports to senior management on audit plans for their respective areas, on individual assignments, on key findings and on recommendations made.

6. Craven – Reporting to Members

6.1 Audit and Governance Committee

The Audit and Governance Committee is the audit committee for the Council and is, to all intents and purposes, the "Board" for the purposes of the Public Sector Internal Audit Standards for Craven.

As such, the Audit Manager submits reports on:-

The terms of reference for Internal Audit (i.e. the Internal Audit Charter).

Internal Audit Strategy and planned use of resources.

Audit plans and progress against these plans.

The performance of Internal Audit.

Key issues arising from the work of Internal Audit and the implications of findings and audit options.

The work done, findings and conclusions arising from individual audits.

The annual report. This includes:-

- (i) an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- (ii) a summary of the audit work undertaken to formulate that opinion.
- (iii) matters considered to be particularly relevant for the preparation of the Annual Governance Statement.
- (iv) a comparison between the work actually undertaken and the work planned.

- (v) commentary on the performance of Internal Audit and on compliance with the professional standards set out in the Public Sector Standards for Internal Audit.

6.2 Chair of the Audit and Governance Committee

The Audit Manager periodically meets privately with the Chair of the Audit and Governance Committee to consider significant audit issues.

ORGANISATION CHART (last updated June 2013)



Martin Helm – Audit Manager



Kim Betts – Principal Auditor



Julie Fearn
Auditor
(Lead Computer Auditor)



Laura Daffern
Auditor
(Lead Contract Auditor)



Tom McIntosh
Auditor



Nick Atlay
Auditor



Shaf Ahmed
Trainee