

AUDIT COMMITTEE	AGENDA ITEM No. 7
26 MARCH 2012	PUBLIC REPORT

Cabinet Member responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

DRAFT INTERNAL AUDIT PLAN 2012 / 2013

R E C O M M E N D A T I O N S	
FROM : John Harrison, Executive Director: Resources	Deadline date : N/A
<p>The Committee is asked to consider, endorse and approve the:</p> <ol style="list-style-type: none"> 1. Proposed Annual Internal Audit Plan for 2012 / 2013; 2. Internal Audit Strategy for 2012 / 2013; 3. Internal Audit Terms of Reference (referred to as the Internal Audit Charter); and 4. Internal Audit Code of Ethics 	

1. ORIGIN OF REPORT

This report is submitted to the Audit Committee in line with its agreed Work Programme for 2011 / 2012.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to review various Internal Audit documents to ensure that they remain up to date and compliant with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Audit Committee is recommended to consider and approve the Annual Internal Audit Plan (**Appendix 1**); the revised Strategy (**Appendix 2**); the Internal Audit Terms of Reference (**Appendix 3**) and the Code of Ethics (**Appendix 4**).

2.2 This report is for Committee to consider under its Terms of Reference:

- 2.2.2 To consider a summary of Internal Audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements; and
- 2.2.17 To consider the Councils arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	N/A
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4. INTERNAL AUDIT PLAN (Appendix 1)

- 4.1 The Local Government Act 1972 details the need for an Internal Audit function in its requirement that authorities “make arrangements for the proper administration of their financial affairs”. In England, the Accounts and Audit Regulations 2011 specifically require that an authority must “*maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control*”.
- 4.2 Internal Audit is an integral part of probity and corporate governance. It operates as an **independent assurance function** designed to give an objective opinion to the Council on the control environment, comprising risk management, internal control and governance. It adds value to the Council by improving its operations and contributing to the proper, economic, efficient and effective use of resources.
- 4.3 The Annual Operational Plan describes the individual audit reviews to be undertaken during the year. To determine the scope of the plan for 2012 / 2013 we have undertaken a systematic risk assessment of all auditable areas. This is informed by our review of the risk registers where available, consultation with Directors and Heads of Service, council and government initiatives and the Medium Term Financial Strategy. We have also determined the work required to fulfill statutory s.151 responsibilities.
- 4.4 The plan shows the minimum amount of work that the Internal Audit service has assessed should be undertaken after considering available resources. The plan for 2012 / 2013 is not a static document. The Chief Internal Auditor reserves the right to amend plans (in consultation with the s151 officer) in line with emerging risks and changing priorities as they occur throughout the year. Any major changes in the plan will be reported to those charged with governance and through to the Audit Committee on a periodic basis.

5. INTERNAL AUDIT CODE OF PRACTICE

- 5.1 The Council is required under the Accounts and Audit Regulations 2011 to make provision for Internal Audit in accordance with proper practices in relation to internal control defined in the Guidance as the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (“the Code”).
- 5.2 “The Code” defines standards on the way in which the Internal Audit Service should be established and undertake its functions. “The Code” is currently under review by CIPFA and a revised Code is due for publication in 2012. The Code is split into standards, organisational and operational, and specifically requires Internal Audit to have a Strategy, Terms of Reference, and a Code of Ethics. The Council’s Section 151 officer (the Director of Strategic Resources) is required to demonstrate adherence to this Code.
- 5.3 **Audit Strategy (Appendix 2)**
- 5.3.1 The Audit Strategy documents the way in which Internal Audit intend to deliver the service and how we ensure that our work complies with the standards contained in the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006. In particular, it states how the work of Internal Audit will provide the assurances required for the production of the statutory Annual Governance Statement. We will achieve this by adopting a risk-based approach to our work; both at the level of annual planning and of individual audits, to ensure that the Council’s key priorities, objectives and risks are targeted.

5.4 Terms of Reference (Appendix 3)

- 5.4.1 The Terms of Reference is a written statement of the purpose, authority, role, scope and principal responsibilities of an Internal Audit section. It is required because of the unique way in which such a section functions. Internal Audit needs authority to act outside its own departmental boundaries, in all parts of the Council, so as to provide those charged with governance independent assurance over the control environment. This requirement cuts across other hierarchical reporting lines.
- 5.4.2 This CIPFA Code of Practice specifies the need for thus to be approved by those charged with governance. Of particular importance is the need for Internal Audit to be independent. It should have no operational responsibilities, and the Head of Internal Audit should have direct access and freedom to report in his own name, without fear or favour, to all officers and members and particularly those charged with governance. The status of the Internal Audit section, in terms of its reporting lines and the seniority of the Head of Internal Audit is a fundamental aspect of independence.
- 5.4.3 It is also important that the scope of Internal Audit is not unduly limited. It should cover the whole control environment comprising risk management, internal control and governance. It should include all the Council's operations, systems, projects, resources, services and responsibilities in relation to other bodies.
- 5.4.4 As well as covering the above points, it describes certain audit protocols, so that management understand their responsibilities in the audit process and are made aware of what they can expect from Internal Audit.

5.5 Code of Ethics (Appendix 4)

- 5.5.1 The Code of Practice contains requirements to set minimum standards for the performance and conduct of all internal auditors and includes five main principles – Integrity; Objectivity; Competence; Confidentiality and Professional Behaviour.
- 5.5.2 The current Code of Ethics continues to be based on best practice, the CIPFA publication, "Ethics and You" (2006).

6. **CONSULTATION**

The Internal Audit Plan has been compiled after consultation with Directors and Heads of Service. It has also been submitted to External Audit for their comments.

7. **ANTICIPATED OUTCOMES**

Approval of the Annual Plan 2012 / 2013 and associated documents.

8. **REASONS FOR RECOMMENDATIONS**

The Council is subject to the Accounts and Audit Regulations and, as such, must make provision for Internal Audit in accordance with the CIPFA Code of Practice. It must also produce an Annual Governance Statement to be published with the Council's financial accounts. The attached reports demonstrate how the audit service will be provided and how it will contribute to the Statement.

9. **ALTERNATIVE OPTIONS CONSIDERED**

The Internal Audit plan could be constructed on a cyclical basis, thus covering all areas of the Council over a period of time. This does not concord with current professional guidance and would not seek to target the limited resource available to

areas of high risk. The alternative of not providing an Internal Audit service is not an option – see section 10 below.

10. IMPLICATIONS

There would be a legal implication if an Internal Audit service was not provided for, and if mechanisms were not in place to carry out a review of internal control, governance and risk management as a basis for the Annual Governance Statement.

BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

- CIPFA: Code of Practice for Internal Audit in Local Government in the UK 2006;
- CIPFA: Ethics and You (2006);
- Accounts and Audit Regulations 2011;
- Local Government Act 1972;
- Committee papers; and
- Risk Registers.

11. APPENDICES

- Appendix 1 – Annual Internal Audit Plan
- Appendix 2 – Audit Strategy
- Appendix 3 – Internal Audit Terms of Reference
- Appendix 4 – Code of Ethics