

**Teignbridge District Council
Audit Scrutiny
30 August 2022
Part 1**

INTERNAL AUDIT PLAN and CHARTER 2022-2023

Purpose of Report

To advise members of the internal audit work planned and in progress, and to request approval of the Internal Audit Charter (Terms of Reference).

Recommendation(s)

The Audit Scrutiny Committee APPROVES the Audit Plan and Charter.

Financial Implications

None. The service will be delivered within the approved budget.

Legal Implications

The Council is meeting its statutory requirement to provide an internal audit function.

Risk Assessment

Not applicable.

Environmental/ Climate Change Implications

Not applicable.

Report Author

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Executive Member

Councillor Richard Keeling – Executive Member for Resources

1. PURPOSE

To present the current plan of internal audit work for 2022-2023, and the internal audit Charter (terms of reference), for Members' approval.

2. BACKGROUND

2.1 The Council is required under the Accounts and Audit Regulations (2015), to maintain an adequate and effective internal audit service which evaluates the effectiveness of the Council's risk management, control and governance processes.

2.2 The minimal level of audit is not prescribed but it must be considered sufficient to give an annual evidence based assurance opinion at the end of the year.

3. AUDIT PLAN 2021-2022

3.1 The following factors are taken into account in planning the audit work:

- the Council's priorities which cover three main areas – housing, climate change and jobs
- the contents of risk registers
- the complexity of systems or functions including value and volume of transactions
- vulnerability or past susceptibility to fraud or error
- time since last audited and results of any other reviews
- knowledge gained through previous audits and from other corporate work
- changes to systems either planned or known to have occurred
- local, national and legislative issues
- views of the senior management and statutory officers

3.2 Audit work must be undertaken in flexible manner, especially in times of significant transformation. The audit plan could therefore be subject to in-year changes in response to the Council's ongoing modernisation programme, or for any emerging risk areas requiring assurance.

3.3 **Resources** – audits will be delivered by a mixture of in-house resource (Auditor and Audit / Information Governance Manager) supplemented by external resource. Where assurance has been provided by other bodies, we will make use of this where appropriate to do so.

3.4 **Planned audits** are as follows:

Key Financial Systems:
• Debtors and Income Reconciliation
• Main Accounting
• Treasury Management
• Business Rates
• Government Grant and Payment Schemes
• Housing Finance (carried forward 21/22)
Other Systems and Projects:
• South West Coastal Monitoring Programme
• Climate Change (in progress / carried fwd 21/22)
• Leisure
• Procurement
• Housing Grants
• Major Projects review
Corporate:
• Risk Management
• Governance and Annual Governance Statement
• Data Quality
• Counter Fraud policies
• National Fraud Initiative
IT Assurance:
• As per Strata Internal Audit Plan supplemented with additional cyber risk governance work
• Exercise in a Box action plan

4. AUDIT CHARTER

- 4.1 Internal Audit's purpose, authority and responsibility must be formally defined to give it the status required to carry out its work independently.
- 4.2 These terms of reference are provided for through a **Charter** (see Appendix below) which members are asked to approve.

5. MAIN IMPLICATIONS

The implications members need to be aware of are as follows:

5.1 Legal

The Council is meeting its statutory obligation to provide an internal audit function.

5.2 Resources

The service will be delivered within budget.

6. GROUPS CONSULTED

Strategic Leadership Team and Corporate Management Team.

7. ENVIRONMENTAL/CLIMATE CHANGE IMPACT

Not applicable.

8. DATE OF IMPLEMENTATION (CONFIRMATION OF DECISION SUBJECT TO CALL-IN)

Not applicable.

INTERNAL AUDIT CHARTER 2021-2022

APPENDIX

INTRODUCTION

This document describes the purpose, authority, and principal responsibilities of the Council's Internal Audit Section.

DEFINITION, FUNCTION and MISSION OF INTERNAL AUDIT

Internal auditing is an independent, objective, assurance providing activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit will advise management where internal control systems can be improved, and seek to promote compliance with corporate policies and procedures, and accomplishment of corporate priorities, through its systematic review of the Council's activities. It aims to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

AUTHORITY, INDEPENDENCE, and OBJECTIVITY

Internal Audit's statutory authority is derived from Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations which state that:

"a relevant body must 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..."

To be effective, Internal Audit must remain sufficiently independent of the activities it audits to enable auditors to perform their duties in a manner which facilitates impartial and professional judgements and recommendations. Internal Auditors should ideally have no operational responsibilities. Where this is unavoidable, consideration will be given to seeking assurance from a third party outside the internal audit activity where appropriate.

Internal Audit forms part of the Council's Corporate Services. The Audit Manager reports organisationally to the Head of Corporate Services, and functionally to the Audit Scrutiny Committee (*who act as "the Board" for the purposes of the Public Sector Audit Standards*) on audit matters. Close liaison with the Section 151 Officer (responsible for financial affairs) is maintained to ensure his Section 151 duties are fulfilled, and the Audit Manager has direct access to the Managing Director as and when required.

Internal Audit staff have unrestricted access at any time to such records, assets, personnel and premises, including those of partner organisations, as necessary for the proper fulfilment of their responsibilities. Any officer, or member of the Council

shall, if required, make available such documents or records required for audit purposes and shall supply the auditor with such information and explanation as considered necessary for that purpose.

This statutory role and rights of access are recognised and endorsed within the Council's Financial Instructions (Constitution).

STANDARDS & PROFESSIONALISM

There is a statutory requirement for Internal Audit to work in accordance with 'proper audit practices'. Proper practice is defined by the Public Sector Internal Audit Standards which are used to guide audit activity. Team members are also governed by the Code of Ethics of their professional body as well as the Council's internal Code of Conduct.

For an internal audit function to be effective, the following core principles must be present:

- Integrity
- Competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with strategies, objectives and risks of the organisation
- Demonstrates quality and continuous improvement
- Effective communication
- Promotes organisational improvement
- Is insightful, proactive and future focussed

SCOPE AND RESPONSIBILITIES

Heads of Service and Service Managers are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services.

The scope of Internal Audit allows for unrestricted coverage of the control environment comprising risk management and corporate governance. This means that all of the Council's operations, resources, services and responsibilities are included. Where the scope of Internal Audit's work extends to services provided through partnership, an assessment will be made as to whether Internal Audit staff conduct assurance work themselves, or rely on assurance provided by others.

Internal Audit activity includes:

- reviewing, appraising and reporting on the soundness and adequacy of systems of internal control, whether operations are being carried out as planned, and corporate priorities being met

- reviewing, appraising and reporting on the reliability and integrity of financial and management information, including data quality and performance measurement
- assessing and reporting on the extent to which assets and interests are accounted for and safeguarded from loss
- supporting and encouraging improvements in the efficiency, economy and effectiveness of services
- provision of advice on all risk and control, including interpretation of the Council's Financial Instructions and Contract Procedure Rules
- advising on control and risk implications of enhancements to existing/new systems
- promoting best practice in the Council's risk management and governance processes
- working in partnership with other bodies to secure robust internal control that protects the Council's interests
- co-ordinating with the work of external auditors and other review functions
- investigating frauds and irregularities where necessary and undertaking other special investigations as appropriate

INTERNAL AUDIT MANAGEMENT

The Audit and Information Governance Manager is responsible for:

- managing the Internal Audit service, determining the scope and methods of audit activity
- ensuring that Internal Audit staff operate within current auditing standards and ethical standards of the professional bodies where relevant
- ensuring that Internal Audit staff are impartial, unbiased, and avoid conflicts of interest
- developing operational Audit Plans based on an assessment of risk and in consultation with senior management; reporting Audit Plans to the Audit Scrutiny Committee for approval; and implementation thereafter
- taking account of the adequacy and outcomes of risk management, performance management and other assurance processes when compiling Audit Plans
- maintaining a suitably resourced, professional audit staff with sufficient knowledge, skills and experience to carry out planned audits
- liaison with the Council's external auditors to achieve co-ordination of work where possible both with external audit and other review agencies where appropriate
- reporting to the Strategic Leadership Team (*i.e. "senior management" as defined by the Public Sector Internal Audit Standards*) and the Audit Scrutiny Committee on the results of audit activities, and the effectiveness of the actions taken by management to implement agreed recommendations
- reviewing the Council's risk management and governance arrangements

- providing the Strategic Leadership Team and the Audit Scrutiny Committee with an annual assurance report on the adequacy of the Council's internal control systems

FRAUD AND CORRUPTION

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit procedures alone, cannot guarantee that fraud and corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Internal Auditors will, however, be alert in all their work to the risks and exposures that could provide opportunity for fraud or corruption. They will investigate suspected frauds and irregularities where appropriate, and will act upon reports received via the Council's Whistleblowing Policy in accordance with its Anti Fraud, Theft and Corruption Strategy.

The Audit Manager 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.

AUDIT REPORTING

Audit assignments will be the subject of formal reports in order to communicate the findings of the audit and encourage management to take prompt mitigating action if risks have been identified.

Reports will be issued in draft form to the managers responsible for the area under review for agreement of the factual accuracy of findings. On receipt of management comments, including acceptance or rejection of recommendations, reports will be finalised with agreed action dates where applicable. Each report will include an opinion on the adequacy of the control environment governing the activity that has been audited. Reports with Fair or Poor assurance ratings will be brought to the attention of the Strategic Leadership Team.

Audit reports will be provided to members of the Audit Scrutiny Committee and a summary of all audit work at Audit Scrutiny meetings. If the failure to implement an audit recommendation is deemed to present the Council with an unacceptable risk, the matter will be reported to the Audit Scrutiny Committee and the manager concerned may be required to give an explanation.

At the end of each audit year, the Audit Manager will give an annual assurance opinion and report which can be used to inform the Council's Annual Governance Statement. The annual opinion will conclude on the overall adequacy of the framework of governance, risk and control, and will summarise the work and other assurance sources that support the opinion.

LOCAL AND NATIONAL ISSUES AND RISKS

The annual audit planning process ensures that new or emerging risks are considered. The Audit Manager consults the Strategic Leadership Team on the issues and risks inherent to their service areas to help identify any potential areas of concern for audit review. Risk registers are examined to ensure high scoring risks are taken into account. The audit 'universe' (list of auditable activities) and resulting plan are further informed by the review of Council minutes; corporate knowledge, and issues arising from past audits, and service reviews.

The Audit Plan is approved by the Audit Scrutiny Committee, however, it is recognised that this is flexible and can be revised should unforeseen issues arise, or priorities change throughout the year.

Individual audit projects within the plan focus on the control systems for key risks within each area. Both systems based and risk based approaches may be used. Mitigating actions from the operational risk register may also be tested to assess how well risks are being managed.

Awareness of national issues is maintained through membership of and subscription to professional bodies such as the Chartered Institute of Internal Auditors and the Chartered Institute of Public Finance Accountants' advisory services; Better Governance Forum; liaison with external audit; and with colleagues in other local authorities.

PROVISION OF THE SERVICE

The service is provided by an in-house Audit / Information Governance Manager and Auditor, supplemented with external resource as needed. This "mixed provision" service from a combination of internal and external resource provides a good skills base.

The audit team aim to deliver audit work in accordance with the Public Sector Internal Audit Standards.

Service delivery is monitored through a quality assurance and improvement measures which include key performance indicators such as achievement of the Audit Plan, customer feedback, assessment against the Public Sector Internal Audit Standards, and a value for money indicator which can be included to benchmark the cost of the service if required.

RESOURCES AND SKILLS

The pandemic caused a reduction in resources in the previous audit cycles. A revised budget is in place for 2022-2023 which supports the resources (outlined above) to deliver the plan .

Auditors are encouraged to develop their skills and knowledge through undertaking various training programmes. The Council recognises both CIPFA and the Chartered Institute of Internal Auditors (CIIA) qualification for internal auditing. The Audit Manager is a full member of the Chartered Institute of Internal Auditors.

Training needs are assessed on an ongoing basis and are reviewed during annual staff Personal Development and Performance meetings. The aim is to ensure auditors are operating at a level which fulfils client requirements and meets professional standards.

If the necessary skills for a particular assignment were not available in house, the external budget provides flexibility to source these externally, as required.