

Audit Committee – 24 June 2013

Public Sector Internal Audit Standards

Summary of report:

To update members on the new Public Sector Internal Audit Standards (PSIAS), that came into effect on 1 April 2013 and approve the changes require to the Audit Charter as part of ensuring the council's compliance with the PSIAS.

Background papers:

Public Sector Internal Audit Standards.

Recommendation:

1. That members give due consideration to this report and adopt the PSIAS, a summary of which is detailed at **Appendix 1**.
2. That members approve the amended Audit Charter at **Appendix 2** as part of ensuring the council's compliance with the PSIAS.



14 June 2013

Introduction & Background

In May 2011, the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) agreed to collaborate in the development of the internal audit profession in the public sector. As a result, the national PSIAS, based upon the mandatory elements of the global CIIA's International Professional Performance Framework have been developed.

The PSIAS, a summary of which is detailed at **Appendix 1**, are effective from 1 April 2013 and consist of the following:

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

The PSIAS replace the Code of Practice for Internal Audit in Local Government in the United Kingdom, last revised in 2006. In local government, the PSIAS are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2011.

Public Sector Internal Audit Standards

The new standards are intended to promote further improvement in the professionalism, quality and effectiveness of internal audit across the public sector. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide Audit Committees and senior management with the key assurances they need to support them both in managing the organisation and in producing the annual governance statement.

While the PSIAS come into force from 1 April 2013, it is not expected that all elements will be in place on day one. Many of the standards apply to activities that will happen later in the audit year, for example annual assurance reporting and quality assurance and improvement processes. In addition, most of the requirements of the PSIAS are already in place, as internal audit already operates in accordance with the requirements of the CIPFA Code of Practice.

Some of the standards need to be addressed early on, notably, amendments required to the audit charter. A revised charter, accommodating the new requirements of the PSIAS changes, is detailed at **Appendix 2** for committee's approval.

Audit practice is being assessed against the new requirements. Where any areas of non compliance are identified, these will be addressed. The results of the assessment will be reported to the Audit Committee in the head of internal audit's annual report into the overall adequacies of the internal control environment which is on the 2 September 2013 Audit Committee agenda.

Resource and legal considerations:

None directly related to this report. Many of the requirements of the PSIAS are already in place due to the Council's compliance with the CIPFA Code of Practice, which the PSIAS replace.

Performance and risk management issues:

Performance and risk management are features of the PSIAS on which there is a requirement for compliance.

Equality Implications:

None directly arising from this report.

Consultation:

Consultation has taken place with the Chief Finance Officer and via this report, the Audit Committee.

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Public Sector Internal Audit Standards: Summary**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.

Code of Ethics

Internal auditors in UK public sector organisations must conform to a code of ethics including principles of integrity, objectivity, confidentiality and competency.

Where individual auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The PSIAS also require that internal auditors who work in the public sector have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life* (sometimes referred to as the "Nolan Principles").

Standards for the Professional Practice of Internal Auditing**(i) Purpose, Authority and Responsibility**

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter which should:

- define the terms "board" and "senior management" for the purposes of internal audit activity. The board is considered to be the Audit Committee for Walsall Council;
- cover arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non audit activities.

The nature of audit services and the mandatory nature of the definition of internal auditing, the code of ethics and PSIAS must also be recognised in the charter.

(ii) Independence and Objectivity

Internal audit activity must be independent and internal auditors must be objective in performing their work.

The head of internal audit must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities and confirm to the 'board' (Audit Committee), at least annually, the organisational independence of the internal audit activity.

The head of internal audit must report functionally to the 'board', examples of functional reporting to the 'board' include:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- receiving communication on internal audit's performance;
- approving decisions regarding the appointment, removal and remuneration of the head of audit; and
- making appropriate enquiries of management and the head of internal audit to determine whether there are inappropriate scope or resource limitations.

In the PSIAS's specific public sector interpretation of the standards, it is stated that the governance arrangements in the UK public sector would not generally involve the 'board' approving the head of internal audit's remuneration specifically. The underlying principle is that the independence of the head of internal audit is safeguarded. The guidance states that this can be achieved by the chief executive's contribution to the head of internal audit's appraisal and that feedback can also be sought from the chair of the Audit Committee.

Internal audit must be free from interference in determining the scope of audit, performing work and communicating results and the head of audit must communicate directly with the 'board' (Audit Committee).

Internal auditors must further have an impartial, unbiased attitude and avoid any conflict of interest.

(iii) Impairment to Independence or Objectivity

Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which they had operational responsibility within the preceding year, however, internal auditors may provide consulting (advisory) services for activities for which they were previously responsible.

Approval must be sought from the 'board' (Audit Committee) for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

(iv) Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care. Internal auditors must possess the knowledge skills and other competencies needed to perform their individual responsibilities.

The head of internal audit must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.

(v) Quality Assurance and Improvement Programme

The head of internal audit must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This must include both internal and external assessments.

Internal assessments must include both integral day to day monitoring and supervision of activity as well as periodic self assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

An external assessment should be conducted at least once every five years by a qualified, independent, assessor or assessment team from outside of the organisation. The head of internal audit must agree the scope of the external assessment with either the accounting officer / accountable officer (considered to be the chief finance officer) or the Chair of the Audit Committee.

The head of internal audit must communicate the results of the quality assurance and improvement programme to senior management and the 'board' (Audit Committee).

Instances of non-conformance with the PSIAS should be reported to the 'board' (Audit Committee) and if there are significant deviations these should be considered for inclusion in the Annual Governance Statement.

(vi) Managing the Internal Audit Activity

The head of internal audit must establish a risk based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.

The risk based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisation's objectives and priorities.

The internal audit plan must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the 'board' (Audit Committee) must be considered in this process.

The head of audit must identify and consider the expectations of senior management, the 'board' (Audit Committee) and other stakeholders for internal audit opinions and other conclusions.

The head of internal audit should only consider consulting engagements based on the engagements potential to improve the management of risk, add value and improve the organisation's operations.

The head of internal audit must communicate internal audit's plans and requirements, including significant changes and their impact to the 'board' (Audit Committee); and ensure that resources are appropriate, sufficient and effectively deployed. The risk based plan must explain how internal audit's resource requirements have been assessed and if the level of agreed resources impacts adversely on the provision of the annual audit opinion, the consequences of this must be brought to the attention of the 'board' (Audit Committee).

The head of internal audit must establish policies and procedures to guide internal audit activity.

The head of internal audit must include in the risk based plan the approach to using other sources of assurance and any work required to place reliance on those sources.

The head of internal audit must report periodically to senior management and the 'board' (Audit Committee) on internal audit's activity, purpose, authority, responsibility and performance.

Where internal audit is provided by an external provider, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity.

Internal audit must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

Internal audit must evaluate and contribute to the improvement of governance, risk and control. Notably, with regard to governance:

- promoting ethics and values;
- ensuring effective performance management and accountability;
- communicating risk and control information;
- co-ordinating the activities of and communicating information among the 'board' (Audit Committee), external and internal auditors; and management.

Internal audit must evaluate the design, implementation and effectiveness of the organisation's ethics related objectives, programmes and activities.

Internal audit must assess information technology governance.

Internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management and evaluate risk exposures relating to the organisation's governance, operations and information systems.

Internal audit must evaluate the potential for and occurrence of fraud and the management of fraud risk.

During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

Internal audit must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

Internal audit must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- achievement of the organisation's strategic objectives;
- reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations and programmes;

- safeguarding of assets; and
- compliance with laws, regulations, policies, procedures and contracts.

Internal audit must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes.

Internal audit must develop and document a plan for each engagement including the engagement's objective, scope, timing and resource allocations.

In planning the engagement, internal audit must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model; and
- The opportunities for making significant improvements to the activity's governance, risk management and control processes.

When planning an engagement for parties outside the organisation, internal audit must establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

Internal audit must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations. For significant engagements, this understanding must be documented.

Objectives must be established for each engagement.

Internal audit must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

Internal audit must consider the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.

Adequate criteria are needed to evaluate governance, risk management and controls. Internal auditors must ascertain the extent to which management and/or the 'board' (Audit Committee) has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management and/or the 'board' (Audit Committee) to develop appropriate evaluation criteria. In the public sector, criteria are likely to include value for money.

Consulting engagement objectives must address governance, risk management and control processes to the extent agreed upon with the client and must be consistent with the organisation's values, strategies and objectives.

The established scope must be sufficient to satisfy the objectives of the engagement and must include consideration of relevant systems, records, personnel and physical properties, including those under the control of third parties.

If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

In performing consulting engagements, internal audit must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal audit develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

During consulting engagements, internal audit must address controls consistent with the engagement's objectives and be alert to significant control issues.

Internal audit must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

Internal audit must develop and document work programmes that achieve the engagement objectives and these must include the procedures for identifying, analysing, evaluating and documenting information during the engagement.

The work programme must be approved prior to its implementation and any adjustments approved promptly. Work programmes for consulting engagements may vary in form and content depending upon the nature of the engagement.

Internal audit must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives

Internal audit must identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives. Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement.

Internal audit must base conclusions and engagement results on appropriate analyses and evaluation and must document relevant information to support the conclusions and engagement results.

The head of internal audit must control access to engagement records and must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate

The head of internal audit must develop retention requirements for engagement records, including consulting activities, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff are developed. The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement.

The head of internal audit has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision should be documented and retained

Internal audit must communicate the results of engagements which include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans. Final communication of engagement results must, where appropriate, contain internal auditors' opinion and/or conclusions.

When issued, an opinion or conclusion must take account of the expectations of senior management, the 'board' (Audit Committee) and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

Internal audit are encouraged to acknowledge satisfactory performance in engagement communications.

When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results. Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

Communications must be accurate, objective, clear, concise, constructive, complete and timely. They should be free from errors and distortions and are faithful to the underlying facts. They should be fair, impartial and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. They should be easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Constructive communications are helpful to the engagement client and the organisation and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

If a final communication contains a significant error or omission, the head of internal audit must communicate corrected information to all parties who received the original communication.

Internal audit may report that their engagements are "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing", only if the results of the quality assurance and improvement programme support the statement.

When non conformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts a specific engagement, communication of the results must be disclosed.

The head of internal audit must communicate results to the appropriate parties, who can ensure that the results are given due consideration.

If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organisation the head of internal audit must:

- Assess the potential risk to the organisation;
- Consult with senior management and/ or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

The head of internal audit is responsible for communicating the final results of consulting engagements to clients.

During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organisation, they must be communicated to senior management and the 'board' (Audit Committee).

When an overall opinion is issued, it must take into account the expectations of senior management, the 'board' (Audit Committee) and other stakeholders and must be supported by sufficient, reliable, relevant and useful information. The head of internal audit must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

The head of internal audit must establish and maintain a system to monitor the disposition of results communicated to management; and must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

Internal audit must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

When the head of internal audit concludes that management has accepted a level of risk that may be unacceptable to the organisation, the head of internal audit must discuss the matter with senior management. If the head of internal audit determines that the matter has not been resolved, the head of internal audit must communicate the matter to the 'board' (Audit Committee).

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the head of internal audit to resolve the risk.

Walsall Council

INTERNAL AUDIT CHARTER

1. Introduction

- 1.1 This charter describes the purpose, authority and principal responsibilities of the internal audit service.
- 1.2 The main determinant of the effectiveness of internal audit is that it is seen to be independent. To ensure this, internal audit will operate within a framework that allows:
 - unrestricted access to all levels of management;
 - reporting in its own name; and
 - segregation from line operations.
- 1.3 Every effort will be made to preserve objectivity by ensuring that all audit members of staff are free from any conflicts of interest and do not undertake any non-audit duties, with the exception of high-priority duties and the exigencies of the service.
- 1.4 All internal audit activity is carried out in accordance with financial and contract rules with specific authority for internal audit contained in financial and contract rules and under the Accounts & Audit Regulations 2011.
- 1.5 The existence of internal audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.
- 1.6 The service operates to the standards defined in the Public Sector Internal Audit Standards (PSIAS). The PSIAS required that the audit charter defines the terms of the 'board' and 'senior management' for the purpose of internal audit activity'. In Walsall, the 'board' is considered to be Audit Committee and senior management, is, as the term implies.

2. Objectives of internal audit

- 2.1 As defined within the PSIAS, internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisations 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. In addition, the other objectives of the function are to:
 - support the responsible financial officer to discharge duties as proper officer;

- support the delivery of corporate objectives and the continuous improvement agenda; and
- provide a special investigation service that safeguards the public purse.

3. Scope of internal audit

- 3.1 The scope of internal audit allows for unrestricted coverage of all the Council's activities and unrestricted access to all staff, records and assets including those of partner organisations. It is authorised to obtain such information and explanations necessary to fulfil its responsibilities.

4. Location of internal audit

- 4.1 Internal audit is located within the central offices of the Council and is an independent service function within the resources directorate, reporting directly to the responsible financial officer (chief finance officer).

5. Internal audit responsibility

- 5.1 The main areas of internal audit responsibility within the Council are to:
1. review, appraise and report on:
 - the extent to which council assets and interests are accounted for and safeguarded from loss;
 - the soundness, adequacy and application of internal controls;
 - the suitability and reliability of financial and other management data, including aspects of performance measurement;
 2. devote specific resources to securing value for money within the Council;
 3. support high priority corporate initiatives;
 4. investigate all reported frauds and irregularities;
 5. advise on internal control implications of new systems; and
 6. provide ad-hoc consultancy, advice and assistance as required.

6. Audit style and content

- 6.1 The primary task of internal audit is to provide an assurance function in relation to the systems of internal control operating throughout the Council and in this will adopt a predominantly systems-based approach to audit.
- 6.2 The head of internal audit will be required to manage the provision of a complete audit service that will include systems, regularity, computer and contract audit and special investigations. In discharge of this duty, the head of internal audit will:
- prepare a strategic risk-based audit plan in consultation with senior management. This strategic plan will be regarded as flexible rather than as an immutable expression of audit coverage;
 - translate the strategic plan into annual operational plans for formal agreement with executive directors and directorate senior managers;

- ensure a system of close supervision of audit work, and maintain a review of audit files through the supervisory structure;
- ensure that systems of computer and contract audit within the Council are implemented and maintained;
- ensure that audits incorporate relevant value for money and performance management considerations where the achievement of economy, efficiency and effectiveness will be reviewed;
- ensure specific resources for the investigation of fraud and irregularity;
- prepare regular reports on the audit function for the Audit Committee, the responsible financial officer and directorate management teams;
- provide an annual opinion on the level of assurance that can be placed on the internal control environment, based on internal audit work for the year. This also contributes to the annual governance statement presented to the Audit Committee;
- report on the quality assurance and improvement programme to the Audit Committee and chief finance officer; and
- will have direct and unrestricted access, as necessary, to all members and officers and report in his/her own name.

7. Audit independence

- 7.1 Internal audit will not normally participate in the day-to-day operation of any systems of internal control. However, in strict emergency situations only, audit personnel may be called upon to carry out non-audit work on a short-life basis. They will not then undertake any audit review work for a period of two years where they have been so involved. Similarly, internal audit contractors will not be assigned audit work in areas where they have provided non-audit consultancy work within the last two years.
- 7.2 Members of the internal audit service will sign an annual certificate of auditor independence or, alternatively, advise the head of internal audit of situations where such independence may be compromised.
- 7.3 Sufficient resources will be made available to enable internal audit to operate effectively and maintain organisational independence.
- 7.4 Members of the internal audit service will be expected to contribute to the general management and conduct of business through membership of working groups and participation in ad hoc exercises.
- 7.5 To maintain objectivity, audit staff will not undertake the same audit for more than three consecutive years, other than specialist computer and contract audit work.
- 7.6 The head of internal audit must report to a level within the organisation that allows internal audit to fulfil its responsibilities. Currently this is the chief finance officer. The head of internal audit must establish effective communication with, and have free and unfettered access to the chief executive and chair of the Audit

Committee. The head of internal audit must confirm to the Audit Committee, at least annually, the organisational independence of internal audit activity.

8. Internal audit resources

- 8.1 Internal audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to professional standards. Internal auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.
- 8.2 Internal audit adheres to the standards set out in the PSIAS, namely the mandatory nature of the definition of internal auditing, the code of ethics and the international standards for the professional practice of internal auditing ('the standards'). The mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of internal audit's performance.
- 8.3 The head of internal audit is responsible for appointing the staff of the internal audit service and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The service maintains an annually updated training and development plan which sets out an ongoing development programme for internal audit staff.
- 8.4 The head of internal audit is responsible for ensuring that internal audit resources are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby he/she concluded that resources were insufficient, this must be formally report this to the chief executive, the responsible financial officer (section 151 officer), and, if the position is not resolved, to the Audit Committee.
- 8.5 The head of internal audit will liaise appropriately to ensure that the internal audit service does not unnecessarily duplicate work undertaken by external auditors and inspectors.

9. Audit reporting and follow-up

- 9.1 Planned audit reviews will be undertaken after a written terms of reference is agreed with the relevant manager(s). This will detail audit objectives, scope, timing, resources and reporting requirements.
- 9.2 All audit assignments will be the subject of formal reports that are agreed with the managers responsible for the area under review. A copy of the final audit report will also be sent, as appropriate, to senior directorate manager(s). Reporting protocols will continue to be established when requested by senior directorate managers.
- 9.3 Internal audit aims to issue audit reports within 6 weeks of issue of a terms of reference. All reports will include an action plan incorporating managers' comments.

- 9.4 All audit reports which receive either a no or limited assurance opinion will be routinely reported to Audit Committee. These reports will also be followed up promptly, to ensure that findings identified have been closed / addressed.

10. Audit Committee

- 10.1 The Council's Audit Committee receives routine monitoring reports detailing internal audit progress during the year and receives reports on audit findings, including managers' assurances that appropriate action has been taken to address weaknesses identified, where a no or limited assurance opinion has been issued.
- 10.2 In addition, the Audit Committee:
- approves the audit charter;
 - approves the risk based plan;
 - approves the internal audit resource plan;
 - makes appropriate enquiries of the head of internal audit to determine whether there are inappropriate scope or resource limitations.

11. Fraud and corruption

- 11.1 Managing the risk of fraud and corruption is a management responsibility. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or 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 risks and exposures that could allow fraud or corruption. Internal audit may be requested by management to assist with fraud related work.
- 11.2 The head of internal audit will make arrangements to be informed of all suspected or detected fraud, corruption or improprieties so that he/she can consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for his/her annual overall opinion on the adequacy of the internal control environment.

12. Confidentiality

- 12.1 Internal audit will maintain the confidentiality of all information gathered during audit reviews except as the head of internal audit is required to co-operate, in an open and honest manner, with external auditors / inspectors and meet legislative requirements such as the Freedom of Information Act.
- 12.2 For good practice, internal auditors may discuss audit issues with auditors from other organisations. Such sharing of information will be done within the requirements of the data protection and human rights acts.
- 12.3 The head of internal audit will keep audit documentation in accordance with the Council's document retention guidelines.

13. Related documents

13.1 This document is one of a series that, together, constitute the policies of the Council in relation to financial regularity and anti-fraud / corruption. The other documents are:

- financial rules;
- contract rules;
- anti-fraud and anti-corruption policy;
- whistle-blowing policy; and
- code of conduct for employees.

June 2013