

Appendix A



**CENTRAL BEDFORDSHIRE
INTERNAL AUDIT CHARTER**

Internal Audit and Risk
Central Bedfordshire Council

April 2012

INTERNAL AUDIT - CHARTER

Contents

1. Introduction
2. Management responsibility for internal control
3. Audit Strategy and Annual Plan
4. Audit brief
5. Fieldwork
6. Feedback of issue
7. Draft report
8. Final draft report
9. Final report
10. Audit 'Opinions'
11. Implementation of audit recommendations
12. Follow-up arrangements
13. Fraud and Investigations
14. Consultancy work
15. Escalation procedure
 - a) Stage 1
 - b) Stage 2
 - c) Stage 3
 - d) Stage 4
 - e) Stage 5
16. Performance Management
17. Risk Management
18. Audit Committee
19. Relationship with Partners/Contractors
20. Relationship with External Agencies

Appendix A – Flowchart of Audit Process

1. Introduction

- 1.1 This charter establishes the arrangements for the working relationship between Internal Audit and officers and members of Central Bedfordshire Council (CBC). It clarifies the arrangements for Internal Audit in CBC by setting out the responsibilities of the parties involved, namely Internal Audit, Officers of the Council, Members, and Partners and External Agencies.
- 1.2 Section 151 of the 1972 Local Government Act requires every Local Authority to make arrangements for the “proper administration of the financial affairs of the Authority.” Under the Accounts and Audit Regulations 2011, the Council is required to maintain an adequate and effective internal audit of its accounting records and control systems. This responsibility is currently with the Chief Finance Officer, who has sought to achieve this through the establishment of an efficient and effective Internal Audit Service. Internal Audit will seek to fulfil its role following the CIPFA Code of Practice for Internal Audit in Local Government (2006).

2. Management responsibility for internal control

- 2.1 Management is responsible for the internal control systems that enable the Council to meet its objectives and deliver services efficiently and effectively. Its role is to identify risks to the service and to maintain an adequate and effective system of internal control to mitigate these risks. Management is also responsible for ensuring that staff are aware of the processes and procedures required to operate the control systems. It should be ensured that these controls are operating properly by periodic checking and supervision.
- 2.2 The role of the Internal Audit service is to determine the effectiveness of the controls and the degree of reliance that may be placed on the accounting and other records. The role is set out in the Council’s constitution and is summarised in Section 5.4 of the Code of Financial Governance.

3. Audit Strategy & Annual Plan

- 3.1 Internal Audit has adopted a risk based approach to audit planning. The Head of Internal Audit and Risk and the Chief Finance Officer will agree a one-year risk based audit plan of general systems reviews (including follow-ups of high risk reviews). The plan will also have a provision for fraud investigation works, information computer technology audits, contract audits, follow-ups, and ad-hoc consultancy work.
- 3.2 The annual plan will present the total number of audit days and how they are allocated to various reviews and Directorates. The Head of Internal Audit and Risk will be responsible for discussing and updating the annual plan with Assistant Directors or Chief Officers, Directors and Senior Managers. The plan will be presented to senior managers and the Audit Committee for consideration and approval.

4. Audit Brief

4.1 The Auditor will discuss the scope of the audit and issue a consultation audit brief to the Principal Auditee (Service Manager/Assistant Director with the most responsibility in area under review) and/or the relevant Head of Service. A brief would include the following:

- Introduction
- Scope
- Objectives
- Risk Assessment
- Methodology
- Reporting
- Key contacts
- Budgeting (audit days allocated to review)
- Approval of brief

4.2 The Principal Auditee should promptly respond to a consultation draft brief. Following discussions and agreement on the brief, the Auditor will issue a final draft.

4.3 The Principal Auditee has the following responsibilities to facilitate the review:

- a. Approve the brief to confirm their understanding and agreement of the scope and nature of the review.**
- b. Identify controls which should be in place to address risks identified within the brief.**
- c. Inform appropriate staff and officers associated with the process under review about the nature of the review and what is required of them.**
- d. Provide suitable work space for the Auditor if on-site review is required.**
- e. Complete the action plan in the draft report and return to the Auditor within ten (10) working days.**
- f. Complete the Management Satisfaction Survey at the end of the review and return to the Head of Internal Audit within five (5) working days.**

4.4 One week's notice will be provided to the Principal Auditee before the start of audit work. There is an exception in situations where fraud is involved or Internal Audit is requested to undertake urgent work.

5. Fieldwork

- 5.1 Internal Audit will undertake the fieldwork in accordance with agreed audit procedures and the final audit brief. Any changes in the scope of the audit must be agreed with the Principal Auditee.
- 5.2 During the course of the fieldwork, service departments will be required to make themselves and the appropriate records available to the Auditor within reasonable timeframes agreed between both parties. These timeframes should be appropriate for the information being requested and take into account the need for the Auditor to complete the review within the agreed budget. Officers need to ensure that a deputy (identified at the time of the brief) is informed of the audit should they need to progress the audit work.

6. Feedback of issues

- 6.1 At the end of the fieldwork:
- The Auditor will present their findings and recommendations for an internal quality review process.
 - The Auditor will arrange the first exit meeting with the Principal Auditee (the Auditor will also invite key staff in the process to attend), to discuss the key findings and recommendations of the review and to obtain initial management actions to be taken to address the recommendations made.
 - During the meeting, the Auditor and the Principal Auditee should discuss the findings and agree on the recommendations.

7. First draft report

- 7.1 Within 10 working days of the first exit meeting, a draft report will be electronically distributed to the:
- Principal Auditee
- 7.2 The Auditor will discuss the draft report in detail with the Principal Auditee and associated officers at a second exit meeting, where necessary.
- 7.3 To support the agreement of recommendations, a management action plan template will accompany the draft report. The Principal Auditee should complete this plan after the second exit meeting (in consultation with appropriate colleagues), setting out the names of staff responsible for implementing recommendations together with implementation dates. The Principal Auditee should return the completed action plan to the Auditor by the tenth (10) working day, after the second exit interview.
- 7.4 The Principal Auditee should ensure that officers with responsibilities in the action plan receive copies of the draft report and subsequent reports, are aware of the recommendations, and agree with the management actions.

7.5 To maintain confidentiality, Auditors will only issue reports to designated recipients, as agreed in the brief. Report recipients can distribute and discuss audit reviews with others at their discretion.

8. Final draft report

8.1 Following the second exit interview and agreement of the management action plan, the Auditor will produce an amended draft. When the final draft report is issued it should contain nothing unexpected. The Principal Auditee, and Assistant Director or Chief Officer will receive the Final draft report. A completed management action plan to address the recommendations will be included in the report. The cover note to the final draft report should:

- Clearly explain that a formal response is expected within 10 days (end date provided)
- State that report will become final once accepted or at the end of the 10 days
- Explain that the key issues may be reported to senior management and the Audit Committee.

8.2 The Principal Auditee should use this opportunity to consult managers, officers and applicable cross-departmental colleagues to ensure their awareness and agreement of report details. A final draft report may not be necessary if the Principal Auditee accepts the draft report with minor exceptions. The draft report can then be issued as a final report.

9. Final Report

9.1 The final audit report containing all agreed recommendations and actions will be distributed within 10 days of receiving agreement to the final draft report to:

- the Principal Auditee (should ensure officers with responsibility for implementing any actions are appropriately notified)
- the relevant Assistant Director or Chief Officer, Directorate Representative and Director
- and copied to the Chief Finance Officer.

9.2 A summary of all significant final reports may be included in the progress reports presented to senior management and the Audit Committee. Where appropriate, sensitive information will be protected and/or reported in the confidential section to the Committee.

9.3 Internal Audit will issue a quality control questionnaire with the final report for the Principal Auditee to complete. The Principal Auditee should return the questionnaire to the Head of Internal Audit and Risk within 5 working days from receipt of the final report. Internal Audit will analyse the survey returns and discuss expressed concerns with appropriate officers and the Chief Finance Officer.

- 9.4 The survey will be tracked and comments may be reported to the Audit Committee, as part of Internal Audit’s performance management system.
- 9.5 The Head of Internal Audit and Risk will escalate unresolved issues raised in surveys and non-returned surveys with applicable officers, Assistant Directors or Chief Officers and Directors and these will be reported to the Audit Committee.
- 9.6 The audit process is documented as a flowchart at Appendix A.

10. Audit ‘Opinions’

10.1 Reports will include an ‘opinion’ on the adequacy of controls in the audited area. There are four opinions in use:

<u>Opinion</u>	<u>Level of Assurance</u>	<u>Implications on systems of internal control</u>
Full Assurance	High	<ul style="list-style-type: none"> • Good controls • Low risk of not meeting objectives • Low risk of fraud, negligence, loss, damage to reputation
Adequate Assurance	Medium	<ul style="list-style-type: none"> • Adequate controls • Medium/Low risk of not meeting objectives • Medium/Low risk of fraud, negligence, loss, damage to reputation
Limited Assurance	Medium/Low	<ul style="list-style-type: none"> • Limited controls • Medium risk of not meeting objectives • Medium risk of fraud, negligence, loss, damage to reputation
No Assurance	Low	<ul style="list-style-type: none"> • Inadequate controls • High risk of not meeting objectives • High risk of fraud, negligence, loss, damage to reputation

The ‘opinion’ will impact upon the circulation of the report and what, if any follow-up work is necessary. ‘Limited & No Assurance’ reviews that exhibit significant control risks will be distributed to the appropriate level of management to ensure immediate action to address recommendations. The

Audit Committee may request responsible officers to update them on implementation of actions within committed timescales.

11. Implementation of recommendations

11.1 All managers have the responsibility to implement internal and external audit agreed recommendations within timescales, hence the importance of agreeing practical and realistic recommendations. **It is the responsibility of the manager to inform Internal Audit of completed actions. Internal Audit will then undertake a follow-up as and when necessary.**

11.2 Audit reports will contain a management action plan with recommendations prioritised as:

- High risk (1 – 3 months implementation period)
- Medium risk (1 – 6 months implementation period)
- Low risk (1 – 12 months implementation period)

The Principal Auditee should return the completed action plan within ten days of receiving the draft report.

11.3 Internal Audit will track the implementation of recommendations and will use the information as part of their follow-up work and audit planning. Senior management and the Audit Committee will receive reports on outstanding recommendations, as part of a progress report.

12. Follow-up arrangements

12.1 Follow-up review involves Internal Audit ensuring management have given proper consideration to audit reports, and recommendations have been implemented within appropriate timescales. Internal Audit will undertake follow-ups for high-risk, limited assurance or no assurance reviews, and reviews that warrant follow-ups. These follow-ups may be undertaken as part of a full audit. The report will be brief, focusing on the progress on audit recommendations, and providing one of the following opinions:

- ‘Good’ Progress has been made (all recommendations are fully implemented) – Level of assurance is high as risk to controls is minimal.
- ‘Satisfactory’ Progress has been made (most recommendations implemented) – Level of assurance is medium as risk to controls is low.
- ‘Unsatisfactory’ Progress has been made (most recommendations have not been implemented or limited progress) – Level of Assurance is low as risk to controls is high

12.2 Draft follow-up reports will be issued and exit interviews offered to the Principal Auditee, who will have 10 working days to respond before the report is finalised and issued.

12.3 Internal Audit will report key issues arising from follow-up reviews to senior management and the Audit Committee, as part of its progress report.

12.4 A brief is not required for a follow-up review. However; the Auditor should make appropriate arrangements with the Principal Auditee before the start of the review.

13. Fraud and Investigations

13.1 Management is responsible for managing the risks associated with fraud and corruption, including the introduction and implementation of effective control arrangements to help prevent and detect fraud and corruption.

13.2 Senior Officers, managers, staff, members and the public are encouraged to report attempts to defraud the Council. The Council's Confidential Reporting (Whistle Blowing) Policy details the rights afforded to individuals who suspect and report fraudsters. The Council's Anti Fraud and Corruption Strategy clarifies the role of Internal Audit, managers and staff in responding to fraud matters.

13.3 Fraud investigations (excluding those arising from Housing Benefit fraud) may start with the submission of a brief from Internal Audit to the appropriate manager. The brief will state the objectives, scope of the investigation, and audit resource requirement. The impact of the Regulation of Investigatory Powers Act (RIPA) and the Human Rights Act will be taken into account. Field work will be undertaken in accordance with the brief and the reporting framework identified in the brief.

13.4 Proactive fraud work will be undertaken on assessed risks. It is likely that officers may not be aware that a proactive investigation is in progress.

13.5 Reports will be confidentially delivered to the following officers, depending on the level of investigation and degree of involvement:

- Officer(s) commissioning the work – First draft, Final draft and Final reports
- Appropriate officer(s) who may need the information in areas like Legal, and Human Resources – Final draft & Final report (as appropriate).
- Assistant Director – First draft, Final draft and Final report (as appropriate)
- Responsible Director and Chief Finance Officer – First draft, Final draft and Final report (as appropriate)

13.6 Internal Audit maintains a special investigations log for quality assurance and monitoring purposes. The Head of Internal Audit and Risk will review the log and report activities to the Chief Finance Officer. The Audit Committee will receive appropriate progress reports on the fraud activities.

14. Consultancy work

- 14.1 Managers and staff can make brief enquiries about audit matters through Internal Audit as ad-hoc advice. Enquiries that require more audit time will be classified as ad-hoc consultancy.
- 14.2 The Head of Internal Audit and Risk approves ad-hoc consultancy work. It is possible for an advice or consultancy to turn into an audit review, if the Auditor and the Head of Internal Audit and Risk feel that internal controls are compromised.
- 14.3 Although Auditors will provide consultancy advice, they must remain independent of operational activities. Objectivity is presumed impaired, if Auditors review activities for which they have operational responsibilities.

15. Escalation procedure

- 15.1 Where disagreements, deadlines and timescales on processes and reporting arrangements are not met, and agreement on alternative processes cannot be reached, the following escalation procedures will be adopted:

- a. **Stage 1:**

Reminder telephone call (or email) to be made to Auditee highlighting the fact that escalation procedures will be used if an appropriate response is not received 10 working days from this notification (follow up with e-mail to be sent for audit trail).

- b. **Stage 2:**

If the matter is not resolved in Stage 1, the Auditor will send an e-mail/telephone call to the Auditee highlighting the information/appointment requested and copied to the relevant Manager/Directorate Representative. The Auditee has 10 days to respond to Audit's request.

- c. **Stage 3:**

If there is no response to Stage 2, Internal Audit will inform the Assistant Director or Chief Officer (Auditee copied) via e-mail and/or telephone call after 10 working days following Stage 2 notification.

- d. **Stage 4:**

If requested information/appointment is not received 10 working days following notification at Stage 3, Internal Audit will inform the applicable Director via e-mail (applicable Assistant Director or Chief Officer and Chief Finance Officer copied).

- e. **Stage 5:**

The Chief Finance Officer /Head of Internal Audit and Risk will progress disagreements that have gone through Stages 1 – 4 without a resolution to the Chief Executive.

- 15.2 At any stage, reasonable extension of deadline dates and resolutions to issues can be agreed where possible and where valid reasons exist. However, any significant delays may be noted in the final report (with summaries reported to senior management and the Audit Committee).
- 15.3 If Auditees are concerned that Internal Audit has not followed the procedures or met the deadlines outlined in this protocol, they should initially raise their concerns with their Directorate Representative and the Head of Internal Audit and Risk, to try and reach an agreement on the way forward.

16. Performance Management

- 16.1 Internal Audit, in addition to its quality assurance process, will use a set of agreed Key Performance Indicators to assess the effectiveness and efficiency of audit services. The Chief Finance Officer and the Audit Committee will receive progress reports on the indicators. This ensures that Internal Audit meets its first priority : Audit plan completed in accordance with CIPFA codes of practice

Table 1: Key Performance Indicators

<u>KPI</u>	<u>Definition</u>	<u>Target</u>
KPI 01	Percentage of total audit days completed. Compute, Total number of audit days completed to final stage plus days spent on fraud work/Total number of planned audit days	80%
KPI 02	Percentage of the total number of planned reviews completed. Compute, Total number of audit reviews completed to final stage or milestones met for managed audits/Total number of planned reviews	80%
KPI 03	Time taken to complete an audit within the planned time budget Compute, Total number of audit reviews completed within budget/ Total number of planned reviews completed	80%
KPI 04	Time taken to return draft reports: Percentage of reviews where the first draft report was returned within 10 available working days of receipt of the report from the Auditor. Compute, number of days between the conclusion of the second exit interview and receipt of report from Principal Auditee, with completed management action plan.	80%
KPI 05	Time taken to issue a final report: Percentage of reviews where the final report was issued within 10 available working days of receipt of the response agreeing to the formal report. Compute, number of days between response to the final draft report and distribution of a final report.	80%
KPI 06	Overall customer satisfaction - Survey Forms Assessed. Compute, the total number of survey forms collected to total number of survey forms distributed, and results analysed.	80%

17. Risk Management

- 17.1 Internal Audit and Risk are responsible for the co-ordination of corporate risk management within CBC. This includes assisting services in risk management and championing risk management at strategic and operational levels.
- 17.2 Internal Audit and Risk works with the Risk Coordinators in service areas to ensure a consistent approach to risk management is adopted.

18. Audit Committee

- 18.1 Internal Audit must report to those charged with governance. The Audit Committee is the member body with responsibility of monitoring the work of internal and external audit. Its purpose as stated in its terms of reference is:

“The purpose of the Audit Committee is to provide independent assurance on the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority’s financial and non-financial performance to the extent that it affects the Authority’s exposure to risk and weakens the control environment, and to oversee the financial reporting process. Where the Authority risk is extended into partnerships with other Authorities and contracts with suppliers, then the Committee will be empowered to request the attendance of the third parties to provide an entire picture of both audit and risk.”

- 18.2 Progress reports on the work of Internal Audit will be regularly provided to the Audit Committee. Directorates should send representatives to Audit Committee meetings to respond to Members concerns pertaining to their service area.
- 18.3 The Head of Internal Audit will maintain a positive and professional working relationship with the Audit Committee to ensure the right balance in:
- meeting its terms of reference
 - the Committee’s role in reviewing the performance of Internal Audit and Risk Management
 - the Committee’s role in handling the results of Internal Audit work
 - the provision of appropriate support and adequate training for members
 - using their skill and knowledge to shape the Committee’s work programme.

19. Relationship with Partners/Contractors

- 19.1 A portion of the processes which deliver key services or generate fundamental information for the Council are operated through or by contractors or partners, as independent, external parties. To form an opinion upon the adequacy of both control arrangements and quality/integrity of data for those areas delivered under the contract or Partnership, the Councils Auditors (Internal and External) must seek and obtain adequate assurance.

- 19.2 The Head of Internal Audit must review the processes that are in place to ensure that the governance arrangements of contracts or partnerships are sound and provide for a clear definition of responsibilities. They must also be satisfied that clear arrangements have been established to determine, irrespective of which organisation provides the Internal Audit service, rights of access to the staff, systems and information of the governing body of partnerships. Partnerships should adhere to the Constitution and Financial Procedures of the Accountable Body.
- 19.3 Internal Audit can derive assurance in a number of ways:
- by audit of the contract management, monitoring and performance measurement processes
 - by audit of inputs to outputs i.e. treating the contracted area like a “black box” and auditing both ends of the process
 - through audit of the systems and processes operated by the Contractor. This may involve interviews, obtaining of documents and examination of systems or records and is more akin to an in-house audit.
 - from reliance placed upon Contractor’s own review and assurance mechanisms and processes where they exist (for example where there are audit or other internal risk assessment processes in place)
- 19.4 Internal Audit will seek to use all the four options identified in 19.3 to discharge their responsibilities. In addition, it will use the audit process outlined for CBC services to undertake reviews with Contractors however; it will agree briefs and distribute reports only with CBC Contract Managers. Internal Audit advocates CBC Contract Managers share audit findings and recommendations with Contractors, to foster service improvement and strengthen controls.
- 19.5 Guiding principles for partnerships:
- The partners are committed to an open and constructive working relationship
 - Information will be treated as confidential within the partnership and will not be withheld unreasonably
 - The partners have a common goal of ensuring that unnecessary and unproductive elements of process are eliminated whilst maintaining adequate and visible control mechanisms
 - Developments should be jointly owned and adequately discussed with all relevant parties and understood prior to implementation
- 19.6 The detailed audit arrangements around the Service Level Agreements with Bedford Borough Council have been agreed and are reflected in the Internal Audit Protocol between Central Bedfordshire and Bedford Borough Councils.

20. Relationship with External Agencies

- 20.1 The Audit Commission (The Commission) as the Council's External Auditors need to place reliance on the work of internal audit. The Commission reviews the adequacy and work of internal audit on an annual basis. The Commission and Internal Audit have agreed a 'managed audit' protocol that establishes audit arrangement between CBC's Internal Audit Service and the Audit Commission.
- 20.2 Although Internal and External Audit have different roles and priorities there can be common objectives. Good co-operation is essential in order to minimise duplication of effort and maximise the benefits of working together. Effective co-operation should enable both parties to devote more time to the key issues facing the authority and ensure that the Council gets maximum value for its total audit resource.
- 20.3 The protocol includes regular liaison meetings between senior officers in CBC and the Commission. CBC managers should forward any concerns to their Directorate Representative or the Head of Internal Audit for discussion at liaison meetings.
- 20.4 Internal Audit will liaise with other internal review functions and obtain their reports for information, for review and for comment where proposals may affect internal control arrangements and the risks facing CBC.
- 20.5 Internal Audit will liaise with other external review agencies (such as the Police, DWP and Inland Revenue) where activities may affect internal control arrangements and the risks facing CBC. Internal Audit will start considering the work of external inspection bodies. The Head of Internal Audit and Risk will seek to foster constructive working relationships with such inspection bodies, particularly where Internal Audit reviews are undertaken on, or may be relevant to, the area under inspection, and vice versa. Internal Audit should receive copies of all reports issued to the authority and take these reports into account when considering the risk assessment and audit work as part of the audit planning process, with a view to avoiding duplication of work while ensuring relevant risks are considered.

