



INTERNAL AUDIT PROTOCOL

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LICHFIELD DISTRICT COUNCIL

INTERNAL AUDIT PROTOCOL

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INTERNAL AUDIT PROTOCOL

Introduction

The purpose of this protocol is to:

- Ensure a consistent approach is adopted to undertaking audit work;
- Establish a guide for management on timescales and responsibilities for dealing with internal audit reports issued;
- Ensure a consistent approach is adopted when dealing with internal audit reports within the Authority;
- Document the way in which reports are discussed with managers and the action required when replies are not received;
- Demonstrate to the Authority's external auditors that managers deal with Internal Audit work in an appropriate manner; and
- Ensure all necessary monitoring and reporting of Internal Audit work against the Annual Audit Plan is carried out.

The responsibilities of Officers and Members mentioned in this protocol are detailed in Appendix A.

Planning an Audit

Each year an annual Audit Work Programme is produced based on an Internal Audit Risk Assessment detailing the audit areas to be reviewed during the year. The Audit Work Programme, including timings, will be discussed and agreed with the relevant Head of Service~~Manager~~/Director at the commencement of the new financial year.

For each audit, a brief should be prepared, discussed and agreed with relevant manager. This will normally require discussion with the relevant ~~Director~~Head of Service, unless otherwise instructed, to ensure attention is focussed on areas of greatest risk or concern. Managers are encouraged to raise areas of concern/additional areas with the Auditor, but cannot dictate which areas will or will not be reviewed, as this responsibility lies with the Audit Manager.

The brief should establish the objectives, scope and timing of the assignment and its resource and reporting requirement and agreed with the relevant manager/director.

Where agreement cannot be reached, the Audit Manager shall decide whether this should be pursued at a more senior level including raising the matter with the relevant Director, the Chief Executive or the S151 Officer.

If agreement is still not forthcoming, the matter will be raised with the Audit & Member Standards Committee Chairman.

Audit Approach

Audit work should be undertaken using a risk-based audit approach.

At each stage of the audit, auditors should consider what specific work needs to be conducted and evidence gathered to support an independent and objective audit opinion.

During the course of the audit, key issues should be brought to the attention of the relevant manager to enable them to take corrective action and to avoid surprises at the reporting stage.

All audit work will be subject to an appropriate internal quality review process.

Interim Reports

Interim reports are sent at the discretion of the Audit Manager.

An interim report on an assignment may be sent where appropriate, for example:-

- a) where a matter arises which requires immediate action by management (e.g. serious weakness in control, evidence of fraud);
- b) where an assignment is unusually lengthy or extends over a long time period.

Any interim report made verbally to management shall be confirmed as soon as possible by a written report/memo.

Report Presentation

Assignments will be reported in the method considered by the Audit Manager to be the most appropriate, i.e. formal report or memo/letter:

- a) Formal report with an executive summary - used for routine or major audits.
- b) Memorandum or letter - used when the report is relatively short, or the matters raised are of a minor nature.

Report Content

The Public Sector Internal Audit Standards (PSIAS) state that:

"The basic aims of every internal audit report should be to:

- *Give an opinion on the risk and controls of the area under review, building up to the annual audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;*
- *Prompt management to implement the agreed actions for change leading to improvement in the control environment and performance; and*
- *Provide a formal record of points arising from the audit and, where appropriate, of agreements reached with management, together with appropriate timescales."*

The final internal audit report should be supplemented by the agreed Action Plan, which details the audit recommendations, priority, management response, officer responsible and timescale for implementation.

All reports will contain a scope and objectives and the internal audit observations of the assignment, together with the overall opinion on the adequacy of the internal control environment.

For each audit carried out Internal Audit arrives at a conclusion that assesses the level of assurance that can be placed on the system of internal control being reviewed in one of four categories. The category reflects the assessment of the robustness of the internal control environment with an opinion on whether the actual controls in place are being consistently applied. The categories of assurance are detailed in the table below.

Category	Category Description
Substantial Assurance	Audit are pleased to be able to report substantial assurance can be given that the system, process or activity should achieve its objectives safely and effectively and that controls are in place and operating satisfactorily.
Adequate Assurance	Audit are pleased to be able to report reasonable assurance can be given that the system, process or activity should achieve its objectives safely and effectively however there are some control weaknesses but most key controls are in place and operating effectively.
Limited Assurance	It is with some concern that Audit have to report only limited assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are in place but operating poorly, or controls in place are inadequate.
No Assurance	It is with some concern that Audit has to report no assurance can be given that the system, process or activity will achieve its objectives safely and effectively as controls are not in place or are failing.

In addition, the recommendations made in internal audit reports (action plans) have been placed into one of three categories, namely:

High (Red) priority recommendations will be made if one of the following criteria is met:

1. Adversely affects the Annual Governance Statement;
2. Results in significant loss of funds or assets;

3. May lead to service delivery failures which could adversely affect the Council's reputation;
4. Shows non-compliance with statutory requirements, the Council's Constitution, Codes or Policies and or any Cabinet approved initiatives;
5. Changes the effectiveness of key controls;
6. Significant opportunity exists for real gains in processing efficiency;
7. Poor cost controls or potential for significant savings and/or revenue generation;
8. Significant impact environmentally, socially or economically.

All other recommendations that do not meet the above criteria will be classed as Medium (amber) priority recommendations unless they are low risk (green). Low risk recommendations will be included as discussion points in the draft report but excluded from the final report.

In this context 'risk' may be viewed as the chance, or probability, of one or more of the Council's objectives not being met. It refers both to unwanted outcomes that might arise, and to the potential failure to realise desired outcomes.

Consultations

Findings may be discussed 'informally' with managers, during the course of the audit, where it is appropriate to do so. Although alterations to procedures may be made as a result of these discussions, the finding and recommendation will still be included in the internal audit report.

When an audit assignment has been carried out, the auditor shall draft a report showing the matters arising. Draft reports should be reviewed and their findings discussed with the Audit Manager/Principal Auditor.

Following conclusion of the Audit Managerial Review, the draft report will be submitted to the relevant ~~Director-Head of Service~~ and Manager of the Service.

A meeting will be arranged between the Auditor and the Manager. (The relevant ~~Director-Head of Service~~ will be notified of the exit meeting date and they may attend if they so require).

The purpose of such meetings is to discuss the report, correct any factual inaccuracies and formulate a set of agreed/practical recommendations.

NB Recommendations made will not be amended unless further information has been provided which satisfies the auditor that this is appropriate.

The final decision regarding the content of the report lies with the Audit Manager.

The Action Plan should be updated with the results of the manager meeting (i.e. timescale for implementation, management response and officer responsible).

Any areas of disagreement between the Auditor and Management that cannot be resolved by discussion should be recorded in the action plan and the residual risk highlighted. Those areas giving rise to significant risks that are not agreed should be brought to the attention of the relevant Director, the Chief Executive or the S151 Officer, and if necessary with Audit [& Member Standards](#) Committee.

Finalisation of Report

The final report shall be prepared after management consultation and a final Managerial review will be undertaken.

Management Sign Off Of Report

It must be stressed that no amendments to the detail of the report will be made at this point, as it is assumed that these would have been identified at the consultation stage. The exception to this would be amendments to the management responses.

If management require any amendments to the management responses included in the audit report, then they are required to notify the Auditor within one week of the report being issued.

If no response is received within this period, it will be assumed that management are happy with the report and as such the report will be formally issued to the relevant officers and members, as per this protocol.

In circumstances where extensions to the one week requirement have been requested, individual Auditors shall keep a record to monitor responses received from management to ensure timely issue of all audit reports.

The Principal Auditor shall be informed if any reports are unduly delayed. Should this be the case, they should usually be followed up in accordance with the following timetable:

No response after 1 week	Written reminder to Manager by auditor
No response after 2 weeks	Final written reminder to Manager by the Principal Auditor / Audit Manager, (copy to relevant Director)

Where management responses are not forthcoming after a further week, despite reminders having been issued, the Audit Manager shall decide whether this should be pursued at a more senior level including raising the matter with the relevant Director, the Chief Executive or the S151 Officer.

If a response is still not forthcoming after a further week, the matter will be raised with the Audit [& Member Standards](#) Committee Chairman.

Customer Satisfaction Questionnaire

The purpose of the Customer Satisfaction Questionnaire (CSQ) is to seek the Manager's view/perceptions of the quality of audit work carried out.

A CSQ shall be sent by the Audit Manager to Managers for all planned audit work

The CSQ will be sent electronically, following the issue of the final audit report, to the Manager.

The CSQ should be completed and returned to the Audit Manager.

The Audit Manager shall review all completed CSQs received and shall arrange for any appropriate action to be taken following liaison, as necessary, with the auditor and/or manager.

Report Distribution

Reports will be distributed electronically as follows:

- the relevant Manager
- the appropriate Head of Service
- the appropriate Director
- the Chief Executive
- the S151 Officer – executive brief only unless there are financial implications or limited/no assurance, then the whole report
- the appropriate Cabinet member
- the Chairman of Audit & Member Standards Committee
- the Vice-Chairman of Audit & Member Standards Committee
- the External Auditor

The Audit Manager is copied into the e-mail of all final reports issued to ensure that performance information is recorded.

Where it is felt, by the Audit Manager, that the findings pose significant risks to the Council, the covering email to the Audit & Member Standards Committee Chairman/Vice-Chairman would indicate a potential need for Audit & Member Standards Committee involvement.

Occasionally, Internal Audit is required to undertake investigations of fraud or corruption within the Council or other work commissioned by the Chief Executive as Head of Paid Service. In these instances the distribution of reports, as detailed above will not apply. Instead, only the Chief Executive, the Monitoring Officer, the S151 Officer and the Personnel-HR Manager will receive a copy of the report.

Risk Registers

Any findings/recommendations identified as 'high risk' should be added to the relevant service/departmental risk register.

Follow Up Reviews

Follow up reviews ordinarily will be carried out by audit staff approximately 6 months after the final audit report was issued. The purpose of this work is to establish the implementation of key recommendations (high and medium risk) as per the final audit report/action plan. The follow up will deal with those items expected to have been implemented in-line with proposed timescales indicated by the Auditee when the report was originally finalised.

On the basis of this work it is planned to provide management with a short report on the action taken since the final report was issued. It will also provide a summary of the action taken based on the following:

- Fully Implemented
- Partially Implemented
- Not Implemented
- On-going
- Recommendation Superseded

A draft memo will be issued to the Manager and ~~Director~~ Head of Service detailing the outcome of the follow up review together with an updated action plan.

If management require any amendments to the management responses included in the follow up, then they are required to notify the Auditor within one week of the report being issued.

If no response is received within this period, it will be assumed that management are happy with the report and as such the report will be formally issued to the relevant officers and members, as per this protocol.

In circumstances where extensions to the one week requirement have been requested, individual Auditors shall keep a record to monitor responses received from management to ensure timely issue of all follow ups.

The Principal Auditor shall be informed if any reports are unduly delayed. Should this be the case, they should usually be followed up in accordance with the final report timetable for responses.

Implementation review reports will be distributed as per the finalised audit reports.

Where it is found that there are High Priority recommendations still outstanding at the first follow up (6 months), this may be pursued at a more senior level including raising the matter with the relevant Director, Chief Executive or the S151 Officer, and if necessary with the Audit & Member Standards Committee. In addition these issues will be reported in the quarterly progress report of Internal Audit, which will be presented to the Audit & Member Standards Committee. A report of high risk recommendations not implemented will be reported to the Leadership Team on a quarterly basis.

Where it is found that some recommendations are outstanding, a second and final follow up review will be undertaken in 3 months time. Management will be expected to accept the risk of any outstanding recommendations at this time. Any recommendations still outstanding will be included in the quarterly progress report of Internal Audit, which will be presented to the Audit Committee.

Progress Report to the Chief Executive, S151 Officer and Audit & Member Standards Committee

The Audit Manager shall produce a progress report on the work of Internal Audit, as a whole, which will tie in with the Audit & Member Standards Committee meeting cycle. This will be a summary of performance against annual audit plan objectives.

The purpose of the report is to highlight variations from the agreed Annual Plan and the reasons why these were necessary. It should also comment on the general level of work undertaken during the quarter together with summarised details of work of major reviews and investigations carried out.

Performance indicators shall be calculated and noted in the report. These are:

- a) % of plan achieved:
- b) % of recommendations made in audit reports that have been agreed:
- c) % of recommendations implemented at the time of follow up:
- d) Customer Satisfaction on Customer Satisfaction Questionnaires;

Regular meetings will be held between the Chief Executive, S151 Officer and the Audit Manager to discuss the progress report, corporate audit matters arising and significant areas of risk.

Annual Report to the Audit & Member Standards Committee

The Audit Manager shall prepare a written report to those charged with governance timed to support the Annual Governance Statement.

The Audit Manager's Annual Report to the Audit & Member Standards Committee must: -

- a) include an opinion on the overall adequacy and effectiveness of the Council's control environment;
- b) disclose any qualifications to that opinion, together with the reasons for the qualification;

- c) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- d) draw attention to any issues the Audit Manager judges particularly relevant to the preparation of the Annual Governance Statement;
- e) compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets; and
- f) comment on compliance with the Public Sector Internal Audit Standards and communicate the results of the internal audit quality assurance programme.

A copy of the Annual Audit Report will be sent to the External Auditor and Leadership Team for information.

APPENDIX A

RESPONSIBILITIES OF OFFICERS AND MEMBERS IN RELATION TO THE INTERNAL AUDIT PROTOCOL

Managers

- Agree audit brief before any audit work commences.
- Receive draft internal audit reports from the auditor.
- Attend meeting with the auditor to discuss draft internal audit report, correct any factual inaccuracies and formulate a set of agreed/practical recommendations.
- Confirm agreement to the action plan, which details management's response and timescales for recommendations to be implemented within 5 working days.
- Receive final internal audit report.
- Ensure recommendations are implemented in line with the agreed action plan and where appropriate, update on [CovalentPentana](#).
- Complete and return the Customer Satisfaction Questionnaire to the Audit Manager detailing their view/perception of the quality of audit work carried out.
- Update service/departmental risk registers with high risk recommendations.
- Receive Follow Up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.

Heads of Service

- Agree audit brief before any audit work commences.
- Receive draft internal audit reports from the auditor.
- Attend meeting with the auditor and manager, if they deem it necessary, to discuss draft internal audit report, correct any factual inaccuracies and formulate a set of agreed/practical recommendations.
- Receive notification from Audit Manager if responses to internal audit reports are not forthcoming.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive final internal audit report
- Receive Follow Up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.
- Receive notification, during the year, of any major service issues arising. Examples of such issues are those, which the Audit Manager considers to be significant, i.e. frauds, irregularities or fundamental problems in their service area.
- Attend annual audit meeting with Audit Manager, if required. The purpose of these meetings is to discuss the audit work carried out, to ascertain client satisfaction with the audit service and maintain good relations between the service area and audit.
- To attend the Audit [& Member Standards](#) Committee where finalised audit reports are being reported where the assurance levels limited or below, in order for the Committee to ask any questions it may deem appropriate.

Chief Executive/Directors

- Receive copy of the relevant final internal audit reports.
- Receive copy of final internal audit report relating to any investigation of fraud or corruption within the Council or any work commissioned by the Chief Executive, as Head of Paid Service.
- Receive notification from Audit Manager if responses to internal audit reports are not forthcoming.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive notification if management have failed to implement any high priority recommendations at the first follow up review.
- Receive progress reports, which highlight variations from the agreed Annual Plan and the reasons why these were necessary. It should also comment on the general level of work undertaken during the quarter together with summarised details of work of major reviews and investigations carried out. The report should be received within one month of the end of the quarter.
- Attend regular meetings with the Audit Manager.
- Receive annual audit report.

S151 Officer

- Receive copy of final internal audit reports – executive brief only unless there are financial implications or limited/no assurance, then the whole report.
- Receive copy of final internal audit report relating to any investigation of fraud or corruption within the Council or any work commissioned by the Chief Executive, as Head of Paid Service.
- Receive notification from Audit Manager if responses to internal audit reports are not forthcoming.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive notification if management have failed to implement any high priority recommendations at the first follow up review.
- Receive progress reports, which highlight variations from the agreed Annual Plan and the reasons why these were necessary. It should also comment on the general level of work undertaken during the quarter together with summarised details of work of major reviews and investigations carried out.
- Attend regular meetings with the Audit Manager.
- Receive annual audit report.

Monitoring Officer

- Receive copy of the final internal audit report where it is felt that the findings pose significant governance risks to the Council.

Personnel/HR Manager

- Receive copy of final internal audit report relating to any investigation of fraud or corruption within the Council or any work commissioned by the Chief Executive, as Head of Paid Service which involve employees.

External Auditor

- Receive individual audit reports, together with agreed action plans, throughout the year.
- Receive Follow Up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.
- Receive annual audit report.

Leader

- Receive copy of the final internal audit report where it is felt that the findings pose significant risks to the Council, or where findings relate to more than one service.

Cabinet Members

- Receive copy of final internal audit reports relating to their portfolio.
- Receive Follow up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.

Audit & Member Standards Committee Chairman and Vice-Chairman

- Receive individual audit reports, together with agreed action plans, throughout the year.
- Receive Follow up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.

Audit & Member Standards Committee

- Receive notification if management do not respond to internal audit reports.
- Receive notification if an unacceptable response is received from management to internal audit reports.
- Receive notification if management have not signed off the action plan to any audit report.
- Receive notification if management have failed to implement any high priority recommendations at the first follow up review and the second follow up review.
- ~~Receive notification of any high risk recommendations that have not been completed at the second follow up review.~~
- Opportunity to request an audit report to be taken to the next appropriate Committee at which the relevant Director/designated officer would attend in order to answer any questions that may be raised.

- Opportunity to use the audit report as a catalyst to a specific piece of work to be undertaken
- Receive progress reports, based on the individual audit reports issued within the period.
- Receive annual audit report.