

# INTERNAL AUDIT PLAN, CHARTER & PROTOCOL 2021/22

Cabinet Member for Finance, Procurement, Customer Services and Revenues  
& Benefits



Date:	25 March 2021
Agenda Item:	5
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Key Decision?	NO
Local Ward Members	If any Wards are particularly affected insert the name of the Ward Members and their Ward. Ensure that the Ward Members have been consulted.

**AUDIT &  
MEMBER  
STANDARDS  
COMMITTEE**

## 1. Executive Summary

- 1.1 To consider the 2021/22 proposed internal audit plan, charter and protocol (**Appendix 1, 2 and 3**).

## 2. Recommendations

- 2.1 To consider the 2021/22 proposed internal audit plan, charter and protocol (**Appendix 1, 2 and 3**).

## 3. Background

- 3.1 Internal Audit 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 (Public Sector Internal Audit Standards (PSIAS)).
- 3.2 The Audit & Member Standards Committee's consideration and approval of an effective audit plan, charter and protocol is an important element in providing assurance to the organisation that arrangements are in place to provide an independent and objective opinion on the adequacy of the internal control environment.
- 3.3 The proposed audit plan is detailed at **Appendix 1**.
- 3.4 During 2020/21, a trial 12 month extension to the shared agreement with Tamworth Borough Council to include Lichfield District Council's sharing of their auditor resources took place. Despite the pandemic and challenges with remote working, the trial has been largely successful in terms of customer feedback and performance against KPI's (reported to Audit & Governance Committee in audit's routine performance reports). It is therefore suggested that the 12 month extension be extended for a further 12 months to allow the new Audit Manager to fully appraise in terms of future direction of the service.
- 3.5 The Audit Charter is detailed at **Appendix 2** and Protocol at **Appendix 3**. Minor changes, largely to account for role titles have been made and are highlighted on the documents.

Alternative Options	1. None required.
Consultation	1. Leadership team, which includes the Council's Section 151 Officer, have been consulted.
Financial Implications	1. The plan remains deliverable within budget.
Contribution to the Delivery of the Strategic Plan	1. Delivery of the audit plan contributes to all aspects of the Strategic Plan.
Equality, Diversity and Human Rights Implications	1. No equality, diversity or human rights implications arising from this report.
Crime & Safety Issues	1. None arising.
Environmental Impact	1. A risk based review looking at the Council's preparation to de-carbonisation / climate change agenda is included on the draft plan.
GDPR/Privacy Impact Assessment	1. None required.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Significant / high risk systems of internal control fail and go un-addressed.	The audit planning process ensures that audit resources are directed to areas of most significance / highest risk.	Likelihood - Green Impact – Yellow Severity of Risk – Green (tolerable)
B	The audit plan is unachievable.	Available resources have been considered and optimised; and there is a continuous review process in place to monitor plan delivery. Regular updates are provided to Audit & Member Standards Committee.	Likelihood - Green Impact – Yellow Severity of Risk – Green (tolerable)
C			
D			
E			

<b>Background documents</b> Accounts and Audit Regulations 2015 Financial Procedures Rules
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<b>Relevant web links</b>
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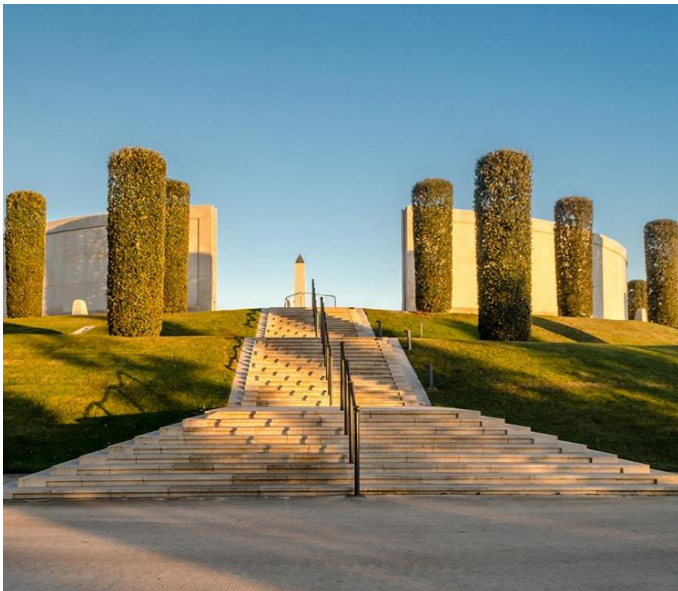
## Appendix 1



### Internal Audit

Draft Audit Plan, Charter & Protocol 2021/22

March 2021



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- 04 Joint Working**
- 05 Charter**
- 06 Protocol**

## **Appendices**

- 01 Detailed Plan 2021/22**
- 02 Internal Audit Charter**
- 03 Internal Audit Protocol**

If you have any questions about this report, please contact Rebecca Neill, Head of Audit [rebecca.neill@lichfielddc.gov.uk](mailto:rebecca.neill@lichfielddc.gov.uk)

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed. We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Lichfield District Council accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

## 01 INTRODUCTION

### BACKGROUND

This report sets out the Draft Internal Audit operational plan for Lichfield District Council (LDC) for discussion and endorsement by the Audit & Member Standards Committee. The purpose of this plan is to identify the work required to achieve a reasonable level of assurance to be provided by Internal Audit in compliance with the Code of Practice for Internal Audit.

The fundamental role of Internal Audit is to provide senior management and the Audit Committee with independent assurance on the adequacy, effectiveness and efficiency of the system of internal control, and to report major weaknesses together with recommendations for improvement. This role is fulfilled by carrying out appropriate audit work in accordance with an annual operational plan as endorsed by the Audit Committee.

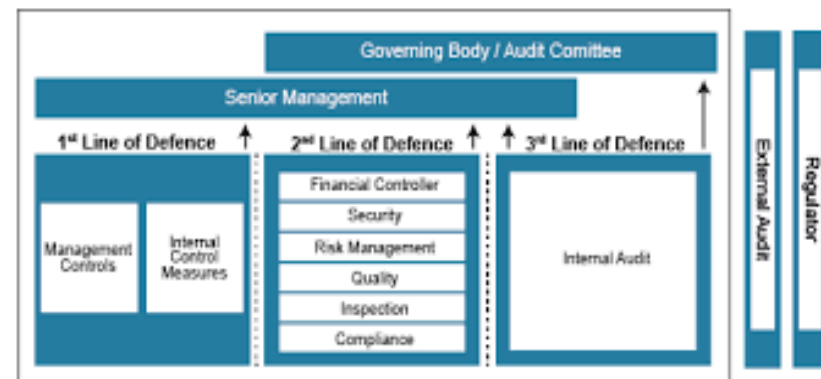
### 02 Audit Planning

As part of the planning for 2021/22, the proposed plan of work has been developed based on:

- **Key risks and priorities** – the plan for 2021/22 is based on an analysis of strategic and operational risks; strategic objectives; internal control and governance processes and other factors which may affect the year ahead, including any changes within the external environment and the sector.
- **Coronavirus** – Due to the significant impact of the pandemic on the Council's operations, as was the case for the 2020/21 plan, an allocation of time to address assurance needs as and when they arise, in response to the pandemic and subsequent recovery has been included. This will be kept under review and any proposed changes reported to the

- **Reference to previous assurance work** – a review of the outcome of previous audit and assurance work undertaken and where assurance is now required again.
- **Level of resources** – in 2020/21 a benchmarking exercise was undertaken to compare the level of audit resources with similar council's. Audit days were reduced from 447 days (2019/20) to 286 days (2020/21) to be competitive with peers. The Council's risk profile has not changed year this year, is not unusual (a reasonable assurance opinion has been given for the last 3 years) and the level of fraud risk has remained low. For these reasons the 2021/22 draft plan resources have not materially changed.
- **Agile approach** – our approach to the plan is one where we will respond to the changing assurance need, by having a level of contingency, enabling us to change the focus of the audits should the Council's organisational priorities or strategic risks change.

Internal audit's strategy is based upon a three lines of defence model of assurance:



Internal Audit seeks to identify assurances provided through the first and second lines of defence and selects the most appropriate method for obtaining assurance to support the Shared Head of Internal Audit's opinion and the Council's governance requirements.

### **03 Internal Audit Plan**

The detailed audit plan at **Appendix 01** sets out the assurance requirement in terms of core financial systems; strategic and operational risk; ICT; governance, fraud and other assurance. The draft plan is for a total of 286 days and in particular seeks to provide assurance over areas of higher risk.

### **04 Joint Working**

During 2020/21, a trial 12 month extension to the shared agreement with Tamworth Borough Council to include the use of LDC's auditor resources took place. Despite the pandemic and challenges with remote working, the trial has been largely successful in terms of customer feedback and performance against KPI's (reported to Audit & Governance Committee in audit's routine

performance reports). It is therefore suggested that the 12 month extension be extended for a further 12 months to allow the new Audit Manager to fully appraise in terms of future direction of the service.

### **05 Charter**

The refreshed charter is at **Appendix 2**. Changes, which have been highlighted, are mainly to account for the replacement of the Head of Audit & Governance with an Audit Manager.

### **06 Protocol**

The refreshed protocol is at **Appendix 3** and changes are as above.

**APPENDIX 01: DETAILED AUDIT PLAN 2021/22**

Assurance Required	Audit	Scope	Planned Days	Total Days	Proposed Quarter
Core Financial Systems	Debtors	Risk based review covering the adequacy and effectiveness of controls around debtors, including account set up / amendment, invoice requisitioning, invoicing, fees and charges and recovery. To accommodate the change to the new Civica Financials Live financial system.	10	40	Q3
	Assets & Inventory	Risk based review covering the adequacy and effectiveness of controls regarding the Council's assets and inventory.	10		Q2
	Grants	Risk based review of the adequacy of controls surrounding grants awarded to the authority. To include compliance with accountable body agreements including arrangements for third party compliance where appropriate.	10		Q2
	Council Tax	Risk based review of council tax including assurance over the adequacy of controls around the maintenance of systems recording taxable properties and liable persons, billing, discounts and reliefs, collection, refunds and write offs.	10		Q4
Strategic & Operational Risks	Strategic Risk Register	Risk based review of the adequacy and effectiveness of the controls in place to mitigate the Council's strategic risks.	25	105	Q1-Q4
	Pandemic risks	'Flash' audits of dynamic risks arising from the Council's pandemic response. To include continuity and recovery arrangements, business grants, productivity and performance.	20		Q1-Q4



Assurance Required	Audit	Scope	Planned Days	Total Days	Proposed Quarter
	Replacement Financial System	Programme assurance based review of the replacement financial system programme to Civica Financials Live. To include income management system replacement. Programme assurance includes programme planning, governance structure and controls, delivery, change management, RAIDD management (Risk, Action, Issue, Decision, Dependency), testing and reporting.	10		Q1-Q2
	Payroll transition	Assurance based review on the effectiveness of payroll controls following the transition from Stafford Borough Council to Stoke City Council, the new payroll agency provider.	10		Q3
	Development Control (Planning)	Risk based review of systems of internal control for planning (using CIPFA control matrices), to include applications, appeals, fee management. Audit carried forward from 2020/21.	10		Q2
	Shared Services	Risk based review of controls in place for effective delivery of shared services e.g. waste management, legal services, building control, internal audit.	10		Q1
	Elections	Risk based review of elections processes and in particular financial returns.	10		Q2
	Climate Change	Risk based review looking at the Council's preparation to de-carbonisation / climate change agenda.	10		Q3
ICT	TBC	TBC	20		20
Governance, Fraud & Other Assurance	Disabled Facilities Grant	Assurance statement	5		Q3
	Housing Benefit Memorandum of Understanding	Assurance statement to enable the Chief Finance Officer sign off to DWP.	5		Q3



Assurance Required	Audit	Scope	Planned Days	Total Days	Proposed Quarter
	Counter Fraud	Work to support the mitigation of fraud risk, the provision of fraud awareness training, pro-active fraud exercises and reactive investigations.	10	121	Q1-Q4
	Annual Audit Opinion	Production of the Annual Audit Opinion.	3		Q2
	Follow Up of Recommendations	To follow up all no and limited assurance reports and all high priority recommendations.	30		Q1-Q4
	Management and Planning	Management, planning and assurance reporting to Leadership Team and Audit & Member Standards Committee.	30		Q1-Q4
	Ad hoc / Consultancy / Contingency	Contingency allocation to be utilised upon agreement of the Chief Finance Officer.	10		Q1-Q4
	Risk Management	Supporting the Council's risk management systems.	15		Q1-Q4
	Election Support	Support to May 2021 Elections	13		Q1
				286	



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**INTERNAL AUDIT  
CHARTER**



**March 2021**

### Revision History

Revision Date	Version Control	Summary of changes
23/12/15	1.01.01	1 <sup>st</sup> draft
06/03/17	1.01.02	Annual review
29/01/18	1.01.03	Annual review
15/02/2019	1.01.04	Annual review
12/02/2020	1.01.05	Annual review
15/03/2021	1.02.06	Annual review

### Approvals

Name	Title	Date
Audit & Member Standards Committee	Committee Approval	
Diane Tilley	Leadership Team Approval	16.3.21
Anthony Thomas	Head of Finance & Procurement	16.3.21
Rebecca Neill	Shared Head of Internal Audit	16.3.21

### Document Review Plans

This document is subject to a scheduled annual review. Updates shall be made in accordance with business requirements and changes and will be with agreement with the document owner.

### Distribution

The document will be available on the Intranet and the website.

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## 1 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 (IIA – UK & Ireland).

The internal audit service will comply with the Public Sector Internal Auditing Standards (PSIAS) as adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA). The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing;
- Code of Ethics; and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

The mandatory core principles for the Professional Practice of Internal Auditing are:

- Demonstrate integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk based assurance
- Is insightful, proactive, and future-focused
- Promotes organisational improvement.

This Charter will be periodically reviewed in consultation with senior management and the board. Changes to the International Professional Practice Framework will be incorporated as and when they occur.

The following posts will be designated as shown below in order to comply with the PSIAS.

Post	Designation
Audit & Member Standards Committee	Board
Leadership Team	Senior Management
Chief Executive	Head of Paid Service
Audit Manager	Chief Audit Executive

The Chief Audit Executive will report conformance to the PSIAS in the annual report to the Board.

## **2 Mission Statement of Internal Audit**

To enhance and protect the authority's values by providing risk-based and objective assurance, advice and insight.

## **3 Purpose and Statutory Requirements**

The internal audit activity will evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach. The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information amongst the board, external and internal auditors and management.

In addition, the other objectives of the function are to:

- Support the Head of Finance & Procurement to discharge their s151 duties of the Local Government Finance Act 1972 by maintaining an adequate and effective Internal Audit service;
- Contribute to and support the Authority's objectives of ensuring the provision of and promoting the need for, sound financial systems; and
- Investigate allegations of fraud or irregularity to help safeguard public funds.

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015 which state in respect of Internal Audit that:

*"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."*

The work of Internal Audit forms part of the assurance framework, however, 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.

## **4 Objectives**

The Chief Audit Executive's responsibility is to report to the Board on its assessment of the adequacy of the entire control environment.

It does this by:

- Providing assurance, which is risk based and objective and relevant (Internal Audit's primary role) to the Council and its management on the quality of the Council's operations, whether delivered internally or externally, with particular emphasis on systems of risk management, control and governance. Assurance to third parties will be provided where specific internal audit resources are allocated to the area under review (e.g. pension contributions).
- Providing consultancy services to internal and external delivered services. Consultancy services are advisory and insightful in nature and will be performed at the specific request of the organisation with the aim to improve governance, risk management and control.
- Providing counter fraud and corruption services to include investigating fraud; increasing awareness of the counter-fraud responsibilities at all levels within and outside the Council; further embedding and supporting the effective management of fraud risk within the Council; setting specific goals for improving the resilience against fraud and corruption through the support of counter-fraud activities across the Council; and minimising the likelihood and extent of loss through fraud and corruption.

### **5 Role and Scope of Work**

The scope on internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's risk management, control and governance processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:

- Evaluating the reliability and integrity of management and financial information processes and the means used to identify, measure, classify, and report such information;
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation;
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are employed;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- Evaluating the potential occurrence for fraud as part of the audit engagements;
- Monitoring and evaluating governance processes;
- Monitoring and evaluating the effectiveness of the organisation's risk management processes;



- Monitoring the degree of coordination of internal audit and external audit;
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan;
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters to the Board;
- Evaluating specific operations at the request of management, as appropriate;
- Support management upon the design of controls at appropriate points in the development of major change programmes.

With regard to Risk Management, internal audit will carry out individual risk based engagements to provide assurance on part of the risk management framework, including the mitigation of individual or groups of risks.

Internal audit operate in an advisory capacity to:

- Report upon the level of risk maturity and scope for improvement;
- Facilitate the identification and assessment of risks;
- Coach management in responding to risks.

The CAE is responsible for:

- Developing the corporate risk management strategy in liaison with the Leadership Teams and Service Units;
- Promoting support and oversee its implementation across the Council;
- Monitoring and review the effectiveness of the risk management strategy;
- Assisting with the identification and communicate risk management issues to Units;
- Advising Corporate and Unit management teams on strategic and operational implications of risk management decisions;
- Supporting Corporate and Unit management teams in their liaison with any external partners when identifying and managing risk in joint projects.

With regard to Counter fraud activity, internal audit will carry out the following activities:

- Provide assurance on the adequacy of counter fraud arrangements
- Evaluate counter fraud reporting
- Review the implementation of the counter fraud strategy
- Evaluate preventative and detective controls
- Review control weaknesses that led to the fraud
- Review of the fraud risk assessment
- Provide support in the ethical and anti-fraud and corruption culture
- Share learning

- Champion the development of counter fraud capability
- Receive whistleblowing referrals
- Use data analytics to identify fraud
- Review of NFI matches
- Lead on a fraud and corruption risk assessment
- Develop the counter fraud and corruption strategy
- Undertake investigations

### **6 Proficiency and Due Professional Care**

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Core Principles of the Internal Standards for the Professional Practice of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to Lichfield District Council's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

Job descriptions and person specifications for each post within Internal Audit Services define the appropriate knowledge, skills and experience and are reviewed periodically.

Personal Development Reviews will be completed in accordance with the Council's policy. Staff will be supported to fulfil training and development needs identified in order to support their continuous professional development programme.

Internal Auditors will exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives with detailed Terms of Reference (including consultancy engagements);
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and
- Cost of assurance in relation to potential benefits.

Where gaps exist in knowledge and skills in the formation of internal audit plans, the CAE can engage specialist providers of Internal Audit Services.

Internal Audit staff will be suitably supervised and work will be reviewed by a senior member of staff.

## **7 Authority**

The Internal Audit service, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of Lichfield District Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit service in fulfilling its roles and responsibilities.

## **8 Organisation**

The Chief Audit Executive will report functionally to the Board and administratively (i.e. day to day operations) to the Head of Finance & Procurement.

The Board will receive performance reports on the internal audit function on a quarterly basis.

## **9 Independence and Objectivity**

The internal audit service will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or reporting content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

Regular review of the placement/location of Internal Audit team members will be completed to ensure independence, taking into account the consultancy work individual internal auditors have performed when completing assurance engagements. Internal auditors will not provide assurance in areas where they have been involved in advising management.

The internal audit service will also have free and unrestricted access to the Head of Paid Service and the Board.

The Chief Audit Executive will confirm to the Board, at least annually, the organisational independence of the internal audit activity.

## **10 Internal Audit Plan**

At least annually, the Chief Audit Executive will submit to Senior Management and the Board an internal audit plan for review and approval.

The internal audit plan will be developed based on prioritisation of the audit universe using a risk-based methodology, which takes into account, results from previous audits, stakeholders expectations, feed back from Senior Managers, objectives in strategic plans and business plans, the risk maturity of the organisation (including managements response to risk), and legal & regulatory requirements. The use of other sources of assurance and the work required to place reliance on them will be highlighted in the audit plan.

Contingency time will be built in to the annual audit plan to allow for any unplanned work. This will be reported on in accordance with the internal reporting process to the Board.

Approval will be sought from the Board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement. The Audit Plan balances the following requirements:

- the need to ensure the Audit Plan is completed to a good practice level (currently at least 90% of planned audits required are deliverable in the year);
- the need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control;
- the need to appropriately review other strategic and operational arrangements, taking account of changes in the authority and its services and the risks requiring audit review;
- the need to have uncommitted time available to deal with unplanned issues which may need to be investigated e.g. allegations of financial or other relevant irregularities, or indeed specific consultancy. (NB there are separate guidelines over circumstances in which Internal Audit may and may not get involved in such investigations or consultancy, and further reference to this is made within the corporate Counter Fraud and Corruption Strategy and guidance);
- to enable positive timely input to assist corporate and service developments.

A joint working arrangement with External Audit will be sought such that Internal Audit resources are used as effectively as possible.

### **11 Reporting and Monitoring**

A written report will be prepared and issued by the Chief Audit Executive following the conclusion of each internal audit engagement and will be distributed as appropriate with executive briefing reports issued in accordance with the Internal Audit Protocol.

The final internal audit report will include management's response and corrective actions in regard to the specific findings and recommendations. It will also include a timetable for anticipated completion of action to be taken.

The Internal Audit service will be responsible for following up all high priority recommendations and those arising from overall no and limited assurance reports to ensure that management have implemented them in the agreed timescales. It is management's responsibility to ensure that the agreed actions for medium and low priority actions are implemented. All outstanding recommendations will be monitored.

Results of audit follow up will be communicated as appropriate and a summary of the results will be reported to Senior Management and the Board.

Where significant risk exposures and control issues, including fraud and governance issues, are identified, they will be reported to the Board.

### **12 Quality Assurance and Improvement Programme**

The Internal Audit activity will maintain a quality assurance and improvement programme that covers all aspects on the Internal Audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the International Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Chief Audit Executive will periodically report to the Board on the internal audit service purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

In addition, the Chief Audit Executive will communicate to Senior Management and the Board on the internal audit service's quality assurance and improvement programme, including results of ongoing internal assessments and improvement plans and external assessments. External assessments will be conducted at least every five years by a professionally qualified and experienced assessor.

The improvement plan resulting from the internal and external assessments will be reported to and monitored by the Board.

Signed by

Chief Audit Executive (Audit Manager)

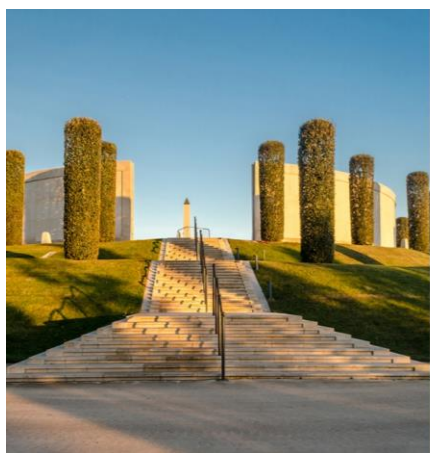
Chairman of the Board (Chair of the Audit & Member Standards Committee)



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**INTERNAL AUDIT  
PROTOCOL**

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**March 2021**

## Revision History

Revision Date	Version Control	Summary of changes
23/12/15	1.01.01	1 <sup>st</sup> draft
06/03/17	1.01.02	Annual review
29/01/18	1.01.03	Annual review
15/02/2019	1.01.04	Annual review
12/02/2020	1.01.05	Annual review
15/03/2021	1.01.06	Annual review

## Approvals

Name	Title	Date
Audit & Member Standards Committee	Committee Approval	
Diane Tilley	Leadership Team Approval	16.3.21
Anthony Thomas	Head of Finance & Procurement	16.3.21
Rebecca Neill	Shared Head of Internal Audit	15.3.21

## Document Review Plans

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## Distribution

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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 plan is produced based on a risk assessment detailing the audit areas to be reviewed during the year. The audit plan, including timings, will be discussed and agreed with the relevant Head of Service 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 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.

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 Head of Service, 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 in writing.

## Report Presentation

All assignments will be reported as a formal report with an executive summary.

## 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 includes 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	There is a sound system of internal control designed to achieve the organisation's objectives. The control processes tested are being consistently applied.
Reasonable Assurance	While there is a basically sound system of internal control, there are some weaknesses which may put the organisation's objectives in this area at risk. There is a low level of non-compliance with some of the control processes applied.
Limited Assurance	Weaknesses in the system of internal controls are such as to put the organisation's objectives in this area at risk. There is a moderate level of non-compliance with some of the control processes applied.
No Assurance	Significant weakness in the design and application of controls mean that no assurance can be given that the organisation will meet its objectives in this area.

In addition, the recommendations made in internal audit reports (action plans) have been placed into one of three categories, namely, high, medium and low. The definitions are as below:

Recommendation Priority	Definition
High	High priority recommendation representing a fundamental control weakness which exposes the organisation to a high degree of unnecessary risk.
Medium	Medium priority recommendation representing a significant control weakness which exposes the organisation to a moderate degree of unnecessary risk.
Low (Housekeeping)	Low priority (housekeeping) recommendation highlighted opportunities to implement a good or better practice, to add value, improve efficiency or further reduce the organisation's exposure to risk.

## 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 Principal Auditor / **Audit Manager**.

Following conclusion of the quality review, the draft report will be submitted to the relevant Head of Service and Manager of the Service.

A meeting will be arranged between the Auditor and the Manager. (The relevant 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 and management actions.

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 Head of Service, 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 / <b>Audit Manager</b> (copy to relevant Head of Service)

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 Head of Service, 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.

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 Principal Auditor.

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.

Any CSQ which are not returned will be followed up and verbal feedback obtained if necessary.

### **Report Distribution**

Reports will be distributed electronically as follows:

- the relevant Manager
- the appropriate Head of Service
- 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 Audit & Member Standards Committee
- the Leader of the Council**
- 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 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 HR Manager will receive a copy of the report.

## **Risk Registers**

Any findings/recommendations identified as 'high risk' should be added to the relevant risk register. This is the responsibility of the risk register owner.

## **Follow Up Reviews**

Follow up reviews will be carried out by audit staff for all no and limited overall assurance reviews and for all high priority audit recommendations. The purpose of this work is to establish the implementation of key recommendations. 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, auditors may conclude that recommendations have been:

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

A monthly routine report will be produced for Heads of Service detailing the status of all outstanding audit recommendations and a summary will be reported to the Audit & Member Standards Committee as part of Internal Audit's routine performance report.

Where it is found that the recommendations in overall no and limited assurance reports have not been satisfactorily implemented or there are high priority recommendations still outstanding this will be pursued at a more senior level including raising the matter with the relevant Head of Service, Chief Executive or the S151 Officer, and the Audit & Member Standards 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:

KPI	Description
a) Achieve the annual audit plan	90% of audits in the annual plan to be completed to draft report stage within 15 working days of the 31 March of each year.
b) Effective completion of audit work	<ul style="list-style-type: none"> <li>i) 100% of draft reports are issued within 6 weeks of commencement of work.</li> <li>ii) 100% of closure meetings conducted within 5 days of completion of audit work.</li> <li>iii) 100% draft reports to be issued within 10 working days of closure meeting.</li> </ul>
c) Recommendations implemented	<ul style="list-style-type: none"> <li>i) 100% of all high priority actions are implemented at follow up.</li> <li>ii) All no and limited assurance reports have a revised assurance rating of substantial or reasonable on follow up.</li> </ul>
d) Customer satisfaction	Achieve an average score of 4 or more.
e) Add value	Quantify added value by actual / estimated valuations of system improvement recommendations.

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/management actions.
- Confirm agreement to the action plan, which details management's response and timescales for recommendations to be implemented within a week.
- Receive final internal audit report.
- Ensure recommendations are implemented in line with the agreed action plan.
- Complete and return the Customer Satisfaction Questionnaire to the Principal Auditor their view/perception of the quality of audit work carried out.
- Update service/departmental risk registers with high risk recommendations.
- Receive Limited and No Assurance Follow Up Review reports detailing the progress made towards implementation of recommendations made in agreed action plans.

### 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 the **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 followed up and reported as being limited or below, or where high priority recommendations have not been implemented in order for the Committee to ask any questions it may deem appropriate.

## Chief Executive

- 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 the **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..
- 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 the 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 the **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 follow up.
- 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 the 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.

## 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 Limited and No Assurance Follow Up Review reports detailing the progress made towards implementation of recommendations made in the agreed action plan.
- Receive the annual audit report.

## Leader

- Receive copies of all final internal audit reports.

## 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

- 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 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 high priority recommendations at follow up or where a no or limited overall assurance opinion review has not been assessed as being substantial or reasonable on follow up..
- Opportunity to request an audit report to be taken to the next appropriate Committee at which the relevant Head of Service / 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 the annual audit report.