

Audit Committee - 10th April 2008

Report of the Director of Finance

Audit Charter & Audit Strategy

Purpose of the Report

1. This report proposes minor amendments to the Audit Charter and an Audit Services Strategy, for approval by the Audit Committee.

Background

2. There is a statutory requirement for local government bodies to make provision for internal audit.
3. The Accounts & Audit Regulations 2006 introduced a requirement for the Council to carry out a review of the effectiveness of the system of internal audit once a year and for the findings of the review to be considered by the Audit Committee or Council as part of the consideration of the system of internal control.
4. The Department for Communities and Local Government provided guidance on the new requirement and cited the CIPFA "Code of Practice for Internal Audit in Local Government" as proper practice in relation to internal audit.
5. A report on the effectiveness of the system of internal audit was presented to the Audit Committee in June 2007. The report commented on a review of operational practice in Dudley compared to the Code and highlighted two minor issues which should be addressed :-
 - a. Audit Charter did not include any reference requiring the Head of Audit to deliver an annual opinion on internal control. The Audit Charter was subsequently amended to rectify this omission. See Appendix A.
 - b. Whilst aspects of strategy had been documented in Dudley, it did not include certain aspects mentioned in the Code i.e. :-
 - i. Objectives and outcomes
 - ii. How the Head of Audit will form and evidence their opinion on the control environment
 - iii. How Audits work will identify and address local and national issues and risks
 - iv. How the service will be provided i.e. internally or externally or a mix
 - v. The resources and skills required to deliver the strategy
6. A draft Audit Services Strategy is attached as Appendix B.

Finance

7. This report has no direct financial effect.

Law

8. Each local Authority is required to have a Constitution which details the governance arrangements and responsibilities of Members and Officers.

Equality Impact

9. This report does not raise any equal opportunities issues.
10. Children and young people were not consulted on, or involved, with the preparation of this report.

Recommendations

11. That the Committee approve the revised Audit Charter, and the Audit Services Strategy document.



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Director of Finance

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Audit Services Charter

The Charter describes the purpose, authority, and principal responsibilities of the Council's Audit Services Division.

Statutory Basis of Audit Services

By virtue of Section 151 of the Local Government Act 1972, the Director of Finance has responsibility for the administration of the financial affairs of the Council. The Director of Finance is also responsible for implementing the requirements of the Accounts and Audit Regulations 2006 which require the Council to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal practices in relation to internal control.

Objective of Audit Service

Audit Services is an assurance function providing an independent and objective opinion on the Council's control environment. It impartially examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

Independence

To be effective Audit Services must be, and seen to be, independent. To ensure this, Audit Services will operate within a framework that allows :-

- a. Unrestricted access to senior management, Chief Executive and Chair of the Audit Committee
- b. Reporting in its own name
- c. No involvement in line operations.

Scope of Audit Services

The scope of Audit Services allows for unrestricted coverage of the Council's activities and unrestricted access to all records, employees and assets deemed necessary by Auditors in the course of their work.

Responsibilities of Audit Services

Service Directors are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services. Accountability for the response to the advice and recommendations made by Audit Services rests with management.

Audit Services responsibilities are to :-

1. Review, appraise and report on the :-
 - a. Soundness, adequacy and application of internal controls, both financial and non financial controls
 - b. Suitability and reliability of financial and other management data including aspects of performance measurement, risk management and corporate governance
 - c. Extent to which the assets, resources, and interests are accounted for and safeguarded from loss and poor value for money
 - d. Compliance with legislation, Council policy and procedures
 - e. Adequacy of governance arrangements

2. Support and encourage improvements in the efficiency, economy and effectiveness of services
3. Investigate frauds and irregularities, where necessary
4. Advise on internal control and risk implications of enhancements to any existing or new systems
5. Liaise with External Auditors in relation to audit planning and assisting with the External Audit when required
6. Work in partnership with other bodies to secure robust internal control
7. Produce a Strategic Audit Plan in accordance with the Council's Strategic Objectives and key risks. This will be fully discussed with Senior Management and the Audit Committee
8. Meet the requirements of the CIPFA Code of Practice for Internal Audit in Local Government and comply with the Code of Ethics for Internal Audit in Local Government and, as directed by professional bodies of which Auditors are members
9. The Head of Audit Services to prepare an annual report to the Audit Committee on the performance of the Division and also to give an overall opinion on internal control.

Audit Services Strategy

Objective

The objective of Audit Services is to provide an assurance function that provides an independent and objective opinion to the organisation concerning the control environment comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation's goals. It impartially examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

Planning

Audit Services will prepare a four year strategic planning framework to ensure overall coverage of all activities.

The list of all Authority activities will be maintained by Audit Services and will be subject to annual consultation with all Directorates to ensure the list is kept up to date.

In preparing the framework, Audit Services will audit each activity on one of the following frequencies :-

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|----------------------|---|
| a. Annual | Major financial and governance systems |
| b. Every four years | Majority of non School activities |
| c. Every three years | Schools, to fit in with FMS schedules |
| d. Every two years | Any activity deemed to warrant increased coverage |

The use of a frequency of every two years is determined by the judgement of the Head of Audit Services. The number of days required for each audit is also based on the judgement of the Head of Audit Services and the record of previous input to each activity.

The planning framework will also be subject to comparison with the Corporate Risk Register and Council Plan to ensure that all significant local objectives, issues and activities are covered in the plan.

The strategic planning framework and annual audit plan will be subject to approval by the Audit Committee.

Performance & Review

The Head of Audit Services will ensure that the Division operates in accordance with best practice advocated by CIPFA.

The Head of Audit Services will carry out an annual review of the effectiveness of the system of internal audit. The review will follow the model set out by CIPFA and will include input from the Director of Finance, Corporate Control Group and Audit Committee. The review will consider the economics, efficiency and effectiveness of the service and will be presented to the Audit Committee.

The performance of the Division in terms of plan coverage and customer satisfaction will be reported to Audit Committee each year.

The Head of Audit Services will operate suitable quality control processes to ensure the work of audit is subject to management review.

Benchmarking will be carried out via the CIPFA National Benchmarking service to assess the cost of service and plan coverage against comparable Authorities nationally and locally.

Head of Audit Services Opinion on the Control Environment

The results of the audits carried out each year will be the major factor in formulating an opinion on the control environment. The Head of Audit Services will also review :-

Significant external inspections of services
Results of the Use of Resources assessments
Work of the Standards Committee on Codes of Conduct and Confidential Reporting Policy
Corporate governance arrangements
Risk management arrangements

The results of these reviews will also assist in the preparation of the Annual Governance Statement.

The Audit Management Team are members of professional bodies and the Division subscribes to various networks, all of which to provide information on important national control and governance issues.

Resources

The resource base for audit has been reduced over time to the current levels which have been in place for a relatively short period. They have proved adequate to carry out the strategic audit plans approved by Audit Committee in the last few years.

In preparing the strategic planning framework the aim is to balance the resources required for a balanced audit plan against available resources. If any significant shortfall in resource is identified this would be reported to the Audit Committee.

Skills

We utilise comprehensive job and person specifications to ensure that all staff are aware of the full range of their duties. The documents also ensure that prospective employees are aware of what is expected of them and the qualities, qualifications and experience necessary.

We also use the Corporate Performance Review and Development process coupled with regular progress meetings to ensure that the performance of staff is monitored. This is in addition to the comprehensive quality control system operated on each audit.

A competency matrix for all Audit positions has also been implemented. This was developed by CIPFA and assists in reviewing the development needs of audit staff.

Partnerships

Audit Services does carry out certain computer application audits but the Authority has determined that specialist computer audits of a technical nature should be carried out in partnership with specialist providers of these services.

The current contract is with Deloitte's. A Protocol has been agreed by both parties which ensures that working practices for the service and each audit are on a similar basis to those used by Audit Services.

The external audit of the Authority is currently provided by the Audit Commission and again we have a Protocol to ensure there is a formal basis for joint working, distribution of reports, etc. Agreement has been reached with the Audit Commission on the specific audits that they will place reliance on our work to ensure that there is no duplication of effort. These audits are predominantly major financial and governance systems related.