WODC Internal Audit

Internal Audit
Good Practice Guidelines

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Internal Audit Good Practice Guidelines

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Introduction

1. Standards

1.1. As with every support function within West Oxfordshire District Council Internal Audit is looking to provide its services with professionalism and value for money. This means achieving our objectives and goals at the highest standards whilst optimising costs.

1.2. Standards are, therefore, required to cover all aspects of Internal Audit activity. The purpose is to clarify and define the approach, understanding and working practices of the individual auditors.

1.3. It is intended that this is an “active” document, and that it does not become a dust-covered archive. To this end, constructive and positive contribution is encouraged from all members of the Section.

Section and Individual Responsibilities

2. The Role of the Internal Audit Section

The Purpose of Internal Audit

2.1. Internal audit is an independent internal appraisal function which measures, evaluates and reports upon the effectiveness of internal controls in systems and processes to give assurance to the efficient and effective use of resources.

2.2. The principle purpose is to:

- Safeguard the Authorities assets;
- Ensure reliability of records;
- Promote operational efficiency;
- Monitor adherence to policies;
- Assure compliance to statutory requirements.

2.3. Internal Audit serves the Council by reviewing its activities, and then accurately and honestly reporting on the adequacy and effectiveness of the management controls and their contribution to the achievement of the Authority’s goals and objectives, making recommendations for improvement as appropriate.
2.4. Internal Audit assists senior management to achieve its aims and objectives by a systematic approach to risk management, governance and process control.

Responsibilities of Internal Audit

2.5. Internal Audit is responsible for examining, evaluating and reporting on the adequacy and application of internal controls to promote:

- Reliability and integrity of the financial and operating information, and the means used to identify, measure, classify and report such information;

- Compliance with the policies, plans, procedures, laws and regulations, both internal and external, which significantly impact operations and to which the Authority’s business in subject;

- Extent to which the assets are safeguarded and accounted for;

- Economy and efficiency with which the resources are employed;

- Extent to which results are consistent with established objectives and goals and whether the operations are being carried out to provide Best Value.

Authority of Internal Audit

2.6. Internal Audit is authorised by the Chief Executive and the Core Management Team, to have full access to records, assets and personnel, to receive whatever information and explanations they consider necessary to fulfil their duties, and to report their findings to whomever in the Authority they consider appropriate.

2.7. Internal Audit also has a duty to responsibly obtain only the information necessary to carry out their work, to use this information in the strictest confidence, and to minimise the disruption to the Sections or Departments they are auditing.
3. The Role of the Internal Audit Manager

3.1. The management of Internal Audit is responsible for ensuring the Section achieves its purpose and fulfils its duties and responsibilities in a manner that provides best value and promotes best practice.

3.2. The main duties are to promote risk management in the Authority, to formulate, agree and carry out an annual Audit Plan based on risk assessment criteria, and to undertake investigations and assignments to prevent or detect fraud or impropriety.

3.3. The Audit Manager will also facilitate advising on Corporate Strategies, guidance notes, and the balance between risks and internal controls.

3.4. Specific responsibilities include:
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- Establishing an Audit Strategy that covers the total of the Authority’s activities within a 3-4 year cycle.

- Producing an Annual Operational Plan, obtaining approval from Corporate Management Team (CMT) and the Audit & General Purposes Committee.

- Managing the Section’s annual operating budget, controlling and monitoring expenditure.

- Planning and organising audit activity:
  - Setting goals (including personal objectives, targets and performance measures)
  - Determining audit work schedules and allocating assignments
  - Establishing staffing plans
  - Appraising staff performance
  - Detailing written policies and procedures to assist audit staff
  - Providing ongoing review and guidance on audits

- Staffing and developing the Audit Section to provide the necessary skills, knowledge and disciplines, providing training and education in various techniques, and developing appropriate career development plans.

- Liaising with and co-ordinating internal audit work with external auditors, the Audit Commission.

- Reviewing overall performance and promoting continuous improvement by use of Post Audit Questionnaires.

- Reporting on and benchmarking performance and achievements.
4. The Role of the Auditor

4.1. For each audit assignment there will be a nominated (Lead) Auditor who will have responsibility for carrying out the detailed audit work. This includes the following:

- Planning the audit assignment, agreeing the objectives and scope;
- Formulating and agreeing the Terms of Reference (TOR) including the timing plan, to satisfy the requirements of the Audit Plan and to fit in with the Auditees schedule.
- Undertaking the audit assignment, ensuring the performance of the audit work adheres to the general and specific standards set.
- Producing an Internal Control Evaluation (ICE) with due reference to CIPFA Control Matrices.
- Evaluating, testing and documenting findings and evidence within an Audit File, using the defined standards of documentation, including cross reference of working papers to the ICE.
- Producing Process Maps to document key processes and outline control points – for review by the external auditors.
- Reviewing value for money covering economy, efficiency and effectiveness.
- Reviewing the organisation including the structure staffing compliment of the Auditee Section.
- Reviewing performance to Key Performance Indicators.
- Ensuring audit findings are raised and the significance of these properly and correctly conveyed to Auditee Management.
- Producing a draft audit report for internal review; agreeing the draft with the Auditee and all parties as defined on the TOR in a timely and professional manner.
- Producing a final audit report with agreed recommendations summarised on a Recommendations Action Plan. The degree of...
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importance of recommendations is defined as:

<table>
<thead>
<tr>
<th>Importance</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High</strong></td>
<td>Fundamental System Weakness – Action is Essential</td>
</tr>
<tr>
<td><strong>Medium</strong></td>
<td>Potential Control Weakness – Action Required</td>
</tr>
<tr>
<td><strong>Low</strong></td>
<td>Advised for Best Practice</td>
</tr>
</tbody>
</table>

- For each recommendation the Auditor will outline the risks; in certain circumstances Managers may choose to accept these risks and this will be reported as such in the final Audit Report.

- Agreeing (with the Audit Manager) and summarising the key findings, and providing an overall audit opinion as follows:
  - Good
  - Satisfactory
  - Fair
  - Weak

- Carrying out and documenting a risk perception assessment in light of the audit, documenting in the report the risks status relating to:
  - People
  - Process
  - System
  - External Party

- Carrying out six monthly follow up reviews of the recommendations and reporting accordingly.

Personal Conduct

This section outlines the level of personal standards and disciplines that the Internal Audit staff and management are expected to adhere to in carrying out their duties and responsibilities.

5. Principles of Conduct

5.1. The personal conduct of the members of Internal Audit is as important as the work it produces. Please also refer to the Internal Audit Code of
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Conduct.

5.2. It should be recognised that the personal conduct of members of the Internal Audit Section affects management’s perception of the work they produce. Further, Auditee Managers will be invited to comment confidentially on auditors’ conduct via a Post Audit Questionnaire.

5.3. Internal Auditors will be expected to sign a Declaration of Interests statement, declaring any interest of a personal or related nature which might compromise their perceived objectivity in undertaking an audit.

5.4. It is expected that Internal Auditors will conform to the standards defined by the Institute of Internal Auditors UK and Ireland (IIA), both its Code of Ethics and Standards of Professional Practice.

5.5. The five principles of conduct are documented in the Internal Audit Code of Conduct, defined as:

- possess personal professional integrity and base judgements upon this accordingly;

- demonstrate professional objectivity in gathering, evaluating and communicating information;

- demonstrate competence by applying skills, knowledge and experience diligently and conscientiously;

- retain confidentiality and respect the value and ownership of information they receive, and not disclose it without authority;

- maintain independence from processes, activities and opinions relating to operations and have an unbiased attitude.

5.6. Auditors should at all times demonstrate respect and consideration for the auditees’ roles and ensure whenever possible the minimal disruption to the area being reviewed.

5.7. It should be remembered that whilst Auditors are reviewing other areas’ performance etc., they themselves are continually under review by their Auditees, and should conduct themselves with utmost professionalism at all times.
Performance of the Audit

This section outlines the guidelines and general standards applied for carrying out the audit review.

6. Planning the Audit

Each audit assignment must be properly planned, including:

Establishing Audit Objectives and Scope

6.1. The Auditor and Audit Manager should agree the objectives and scope of the audit in advance of meeting the Auditee Manager.

Determining Necessary Resource

6.2. The Audit Manager shall determine the necessary resource for the audit, taking into account the number of staff required, man days required, elapsed time available, skills of the internal audit members/training requirements, and staff availability.

Obtaining Background Information

6.3. The Auditor should obtain necessary information from all relevant sources, including previous audit documentation, source documents from the Intranet and Internet, Committee Papers, Budget Books etc.

Terms of Reference

- Overall audit objective
- Proposed timing of the audit (Start Date)
- A draft Terms of Reference and timetable should be produced by the Auditor, and discussed and agreed with Internal Audit Management, ideally at least one week prior to the “Pre-Audit Meeting” with the Auditee.
- The Terms of Reference document is a standard document containing:
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- Audit objectives and proposed scope
- Names of the auditors
- Manager and Senior Managers to receive/review the draft report
- Manager and Senior Managers to receive the final report
- Fieldwork commencement date
- Dates of interim findings meetings
- Date of draft report issue
- Date of final report issue
- Follow up date

7. **Conducting the Audit**

Gathering Information

7.1. Information gathered should be relevant and pertinent and:

- relates to the audit objective and scope;

- is sufficient so that anyone else would come to the same conclusion;
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- is reliable and best available;
- is relevant and useful.

7.2. Information is obtained using a combination of techniques:

- Enquiry and Interviewing
- External Confirmation
- Sample Testing and Analysis
- Use of CAATS
- Observation and Inspection

7.3. Sample testing should be of realistic value, i.e. an appropriate percentage of the population, although it is acceptable to use the approach of testing the outcome against an initial sample for compliance before substantive testing.

7.4. Sampling should be random (e.g. every fifth record, consecutive month’s data, etc) and recorded as such and not cherry-picked.

7.5. Where errors are found, they should be evaluated for their impact on the effectiveness of the control being tested, determining whether further testing should be carried out and/or if recommendations to corrective action should be made.

7.6. All audit work must be clearly documented, including explaining what was done, reasons for doing it, and conclusions reached.

Interpretation of Information

7.7. The Auditor should review and test the adequacy of the internal controls sufficient to ascertain that reasonable assurance can be placed on the findings.

7.8. Before conclusion of the audit, the Auditor should be clear on:
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- The reliability and integrity of the financial and operating information, and the means used to identify, measure, classify and report such information.

- The compliance with the policies, plans, procedures, laws and regulations which significantly impact the operation.

- The means of safeguarding and, as appropriate, verifying the existence of assets.

- The economy and efficiency with which resources are employed.

- Whether results are consistent with established objectives and goals and whether the operations are being carried out as planned (i.e. the objectives are/will be achieved).

Documenting Information

7.9. Documentation is of primary importance, and an audit file is to be maintained containing working papers, evidence and supporting documents to:

- provide evidential support to the findings in the audit report;

- document whether audit objectives are achieved;

- cross-reference to the ICE;

- facilitate internal and third party reviews (Audit Commission);

7.10. The audit file contents should be of standard format using the Internal Audit File Content Master documents. The standard Index to Working Papers should be the front page describing the contents in the pre-determined sections.

7.11. The timing milestones of the audit (as detailed in the TOR) should be recorded on the Activity Control Sheet, for purposes of monitoring the audit status and for performance reporting.

7.12. The recording of change is an important pointer to potential risks; the control processes should therefore be recorded on a Process Map and system changes recorded on a System Update document.
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7.13. Discussion Record and Test Schedule working papers should be used to record the fieldwork findings.

7.14. Structure, performance and value for money documentation should be separately sectioned from the general fieldwork documents.

8. Audit reports

8.1. The audit report is the tangible product of an audit review; a report must be a professional document, easy to read, in plain English, yet a factual document which is an official record, and is placed in the public domain.
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- A draft report must be produced within 5 working days of completion of the audit fieldwork and available for review and agreement by the Manager or Auditor assigned to review.

- The draft report should be issued to the Auditee Management within 7 working days of completion of the audit work. Distribution will be as per the agreed Terms of Reference.

- The draft report should contain Key Findings in Summary, a Recommendations Action Plan and Risk Management Perception Information tabled.

8.2. The draft report should be reviewed within 4 days and ensure the following standards are adhered to:

- The report is objective, clear, concise and constructive.

- The report presents the purpose, scope and results of the audit.

- The auditor’s opinion is detailed within the summary report to provide assurance (or otherwise) to management on the adequacy of the system of control.

- The report includes constructive, realistic, cost-effective recommendations which add value to the activity reviewed.

- The report is grammatically correct.

- The draft report should be formally discussed with the Auditee Management and should incorporate Auditee Management’s responses and any relevant comments against each recommendation under his/her charge. A final copy will then be created from the latest draft version.

8.3. Audit reports should always be presented using the standard WODC Internal Audit Report format which, when issued as final, must always be bound. A final report copy will be placed in the Members’ Room.

8.4. The Summary Report and Recommended Action Plan of the final report will be presented to the Audit and General Purposes Committee.
9. Follow up Reviews

9.1. The Auditee Management, being responsible for the systems of control, is therefore responsible for the appropriate and prompt implementation of accepted recommendations arising from Internal Audit reviews.
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9.2. Nevertheless, it is appropriate to follow up in a six-month review to ascertain that action has been taken on reported audit findings and to report the status to the Audit Committee.

9.3. In circumstances where the target implementation date of recommendations is in excess of six months this review will take the form of a progress report with a full implementation review being scheduled for after the target date.

9.4. A copy of the follow up results should be placed on the audit file.

9.5. Performance data will be recorded to the percentage of High Value Recommendations implemented.

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