

## **Appendix C - INTERNAL AUDIT REPORTING PROTOCOL April 2011**

### **1 Purpose and Scope**

- 1.1 This document outlines the way internal audit will initiate, and report on work for the Council. This protocol relates only to Council Services, a separate protocol exists for Schools.
- 1.2 In terms of this protocol there are three types of audit work that will involve different approaches to reporting. These are:
  - Routine planned audits to provide assurance
  - Advisory work carried out at the request of the client
  - Unannounced audits – to check cash accounting on site.
- 1.3 A set of tables are attached which summarise the key elements of this protocol for each of the above.

### **2 Initiating work**

- 2.1 The following highlights the key stages for commencing Internal Audits
- 2.2 Terms of reference will be issued for all audits, apart from establishments and unannounced audits that will set out the scope of the work to be carried out and confirm the reporting arrangements.
- 2.3 In the case of Establishments a formal memo will be issued to outline the key areas that will be covered by the work.
- 2.4 In the case of unannounced audits the Head of Service will be informed that the audit has been carried out immediately after the conclusion of the visit. (These audits are expected to take no more than half a day.)

### **3 Reporting the results of Internal Audit work**

- 3.1 The reporting process planned work has three key stages :-  
  
Rough Draft Report (Memo in the case of unannounced cash audits);  
Draft Report / Memo;  
Final Report / Memo.
- 3.2 The rough draft will be issued to the Service Manager to check the factual accuracy, and to obtain their initial observations.
- 3.3 The formal draft will be issued once the Service Manager is satisfied with the accuracy of the report. The circulation of the formal draft report will ensure that all relevant people have had an opportunity to comment on the content of the report, prior to it being finalised.
- 3.4 We request comments/observations from all recipients, however, we treat the relevant Head of Service/Unit Manager as the main client, and as such we require the Head of Service to agree to the details, and comment on the

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recommendations, of the report before it is finalised. Where a recommendation is not agreed, we require the Client's reasoning for this, and this detail is included in the action plan (attached to the report) for future reference.

- 3.5 Where, during an audit, a serious problem is discovered which requires immediate attention, it may be necessary to issue an interim report. The relevant auditor will contact the Head of Service to discuss any such issues prior to an interim report being issued.
- 3.6 Internal Audit reports will normally be issued within 3 weeks of the completion of the work. The Terms of Reference for the audit should give an indication of the timescales for reporting.

### 3 Follow Up of Audit Recommendations

- 3.1 A follow up process is required in order to be able to give management/members assurance that the agreed action plans have been implemented. A follow will normally be carried out for all audits where recommendations have been made
- 3.2 A follow-up review is carried out roughly six months after the audit report was finalised. The exception to this is where an annual review is required to be undertaken in accordance with KPMG's requirements (usually the key financial systems in Benefits and Exchequer and Finance). The follow-up then forms part of the following year's review.

### 4 Timescales for receipt of Client Responses to Audit Requests for information/Responses to Audit Reports

- 4.1 This protocol sets out the timeframes by which we require a response from the Client, together with the processes to be followed where these timeframes are not met.

#### Suggestion of Timeframe protocol:-

|                           | <b>Timeframe For Receipt of Response</b>  | <b>Action where no response is received</b>   |
|---------------------------|---|---|
| <b>Rough Draft Report</b> | Within 3 weeks of receipt (or notification of when a response will be received) | <b>Stage 1</b> - Reminder issued to the Line Manager (Head of Service copied in) specifying a response is required within two weeks otherwise the Corporate Director is to be informed. |
|                           | Within two weeks of stage 1   | <b>Stage 2</b> - Corporate Director informed of lack of a response (Copied to the Line Manager and Head of Service) specifying a response is required                                   |

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|  |  |   |
|--|--|---|
|  |  | within two weeks otherwise this will be reported to the Corporate Board |
|--|--|---|

|                     | <b>Timeframe For Receipt of Response</b>  | <b>Action where no response is received</b> |
|---------------------|---|---|
| <b>Draft Report</b> | Within 3 weeks of receipt (or notification of when a response will be received) | Stage two of the Rough draft will apply     |

4.2 These timeframes, together with action to be taken where no response is received will be incorporated into the standard letters/memos we issue with each report.

4.3 The auditor will use his/her judgement on each case to take into account any extenuating circumstances, and will notify the Head of Finance where there are issues with non-compliance that needs to be reported to Corporate Board. The Head of Finance will raise the matter with the relevant Director.

### 5 Reporting to the Governance and Audit Committee

The Chief Internal Auditor will provide the Committee, on a half yearly basis with a report that will summarise the results of completed audit and follow up audits. In the case of follow up audits that are unsatisfactory a note of the key issues will be provided and written update provided by the relevant Head of Service.-

5.1 A schedule listing each finalised audit, highlighting the overall opinion. A summary of the key issues will be produced for all **weak or very weak** opinions. Written comment from Internal Audit will be provided to the Committee and a written response / comment / update will be sought from the Head of Service. In addition the Head of Service will normally be asked to attend the Governance and Audit Committee to provide an update and answer Members questions on the audit.

### 6. Role of Portfolio Holders in the audit process

6.1 Portfolio Holders are involved in the audit process at their discretion and to the extent that they choose.

6.2 Portfolio Holders can choose to vary the extent of their involvement at any time. In addition if they wish they can vary their involvement on an audit by audit basis, by informing the Chief Internal Auditor.

6.3 The role of the Portfolio Holder in the audit process is to:

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- Feed in any issues of concern at the start of the audit so that these can be considered by the auditor in scoping the review.
  - Support the relevant Head of Service in considering weaknesses identified during the audit and action plans proposed by the auditor at the conclusion of the audit
  - Support the Head of Service in implementing agreed action plans
- 6.4 The lead auditor is responsible to the Chief Internal Auditor for managing the audit in compliance with the CIPFA Code of Practice for Internal Audit. Responsibility for the content of the resulting audit report will remain with the relevant lead auditor and the Chief Internal Auditor.
- 6.5 The Head of Finance as s151 Officer has overall responsibility for ensuring that the Internal Audit service complies with the CIPFA Code of Practice for Internal Audit

## Reporting arrangements

### 1 Audit Reviews to provide Assurance

| Client                         | Terms of reference    | Rough Draft Report   | Formal Draft Report   | Final Report                           | Follow-up details                      |
|--------------------------------|-----------------------|--|---|--|--|
| S151 Officer (Head of Finance) | All cases             |  | Where there are fundamental weaknesses in the service   | All cases                              | All cases                              |
| Service / Unit Manager         | All cases             | All cases  | All cases   | All cases                              | All cases                              |
| Head of Service                | All cases             | Only where serious issues relating to the service, i.e. lots of fundamental weaknesses or issues of concern relating to the service manager. Such issues would normally be raised before the report is written | All cases   | All cases                              | All cases                              |
| Corporate Director             | All cases             |  | Where there are fundamental weaknesses in the service   | All cases (except for schools)         | All cases                              |
| Chief Executive                | For his service areas |  | Only where serious issues relating to the service, i.e. lots of fundamental weaknesses or issues of concern relating to the service manager. Such issues would normally be raised before the report is written. | Any report with fundamental weaknesses | Any report with fundamental weaknesses |

## Reporting arrangements

| Client   | Terms of reference | Rough Draft Report | Formal Draft Report  | Final Report | Follow-up details |
|--|--------------------|--------------------|--|--------------|-------------------|
|  |                    |                    | <b>The Chief Internal Auditor will decide on the necessity to issue a report at this level.</b>  |              |                   |
| Relevant Portfolio Member and the Portfolio Member for Finance (in all cases)<br><br>(Include the two Councillors that are Shadowing the Finance Portfolio holder) | All cases          |                    | If the Portfolio member for the service has expressed an interest when the TOR have been issued. | All reports  | All Cases         |
| Chief Internal Auditor   | All cases          |                    | All cases  | All cases    | All Cases         |

## Reporting arrangements

### 2 Advisory/VFM Reviews

(The approach will be agreed with the Client prior to commencing a review, and to be noted in the terms of reference to provide clarity of how the findings are to be reported). Advisory reviews may arise from the need for advice on key controls in systems where the Service concerned is already aware that improvement is needed or where the systems are being changed by the service area, (eg a new ICT system is being implemented).

| Client                 | Terms of Reference | Rough Draft Report | Formal Draft Report  | Final Report |
|------------------------|--------------------|--------------------|--|--------------|
| Line Manager           | All cases          | All cases          | All cases  | All cases    |
| Head of Service        | All cases          |                    | All cases  | All cases    |
| Corporate Director     | All cases          |                    |  | All cases    |
| Chief Internal Auditor | All cases          |                    | Relevant auditor will decide on the necessity to issue a report at this level where there are serious issues relating to the service, i.e. lots of fundamental weaknesses or issues of concern relating to the service manager. Such issues would normally be raised before the report is written. | All cases    |

Further escalation of the advisory / VFM reviews reporting to the Chief Executive and the relevant portfolio Member will depend upon the significance of issues / number of weaknesses identified and will be determined by the relevant auditor. Due to the nature of the work an overall opinion will not be given for an advisory/VFM review. However, these reviews will follow the standard follow process for follow-ups (progress categorisation/circulation of findings).

## Reporting arrangements

### 3 Unannounced Audits

| <u>Client</u>  | <u>Terms of Reference</u> | <u>Rough Draft Memo</u> | <u>Formal Draft Memo</u> | <u>Final Memo</u> |
|--|---------------------------|-------------------------|--------------------------|-------------------|
| Line Manager / Headteacher                             | None issued               | All cases               | All cases                | All cases         |
| Head of Service  | None issued               |                         | All cases                | All cases         |
| Corporate Director                                     | None issued               |                         |                          | All cases         |
| Relevant Portfolio Holder and Finance Portfolio Holder | None issued               |                         |                          | All cases         |
| Chief Internal Auditor                                 | None issued               |                         | All Cases                | All cases         |