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GOVERNANCE & AUDIT COMMITTEE AGENDA

Membership: Councillor Smith K (Chairman)

Councillors Buckley, Hart, Kennedy, Mrs Smallcorn, Tarrant and Wilson

Meeting: Governance & Audit Committee

Date: Wednesday 5 March 2014

Time: 5.00 pm

Venue: Hollybank Room, Public Service Plaza, Civic Centre Road,
Havant, Hants PO9 2AX

The business to be transacted is set out below:

Jo Barden-Hernandez
Service Manager – Legal & Democratic Services

25 February 2014

Contact Officer: *Tristan Fieldsend* 023 9244 9233
Email: tristan.fieldsend@havant.gov.uk

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1 Apologies	
To receive apologies for absence.	
2 Minutes	1 - 2
To confirm the minutes of the Governance and Audit Committee held on 20 November 2013.	
3 Matters Arising	
To consider any matters arising from the minutes of the previous meeting.	
4 Declarations of Interest	

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11	Code of Conduct Complaints	

To receive a verbal update from the Service Manager (Legal and Democratic).

Part 2 (Confidential Items)

None

GENERAL INFORMATION

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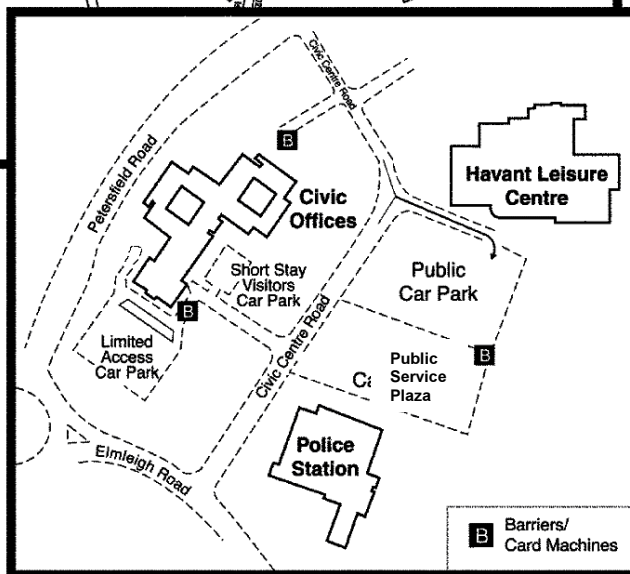
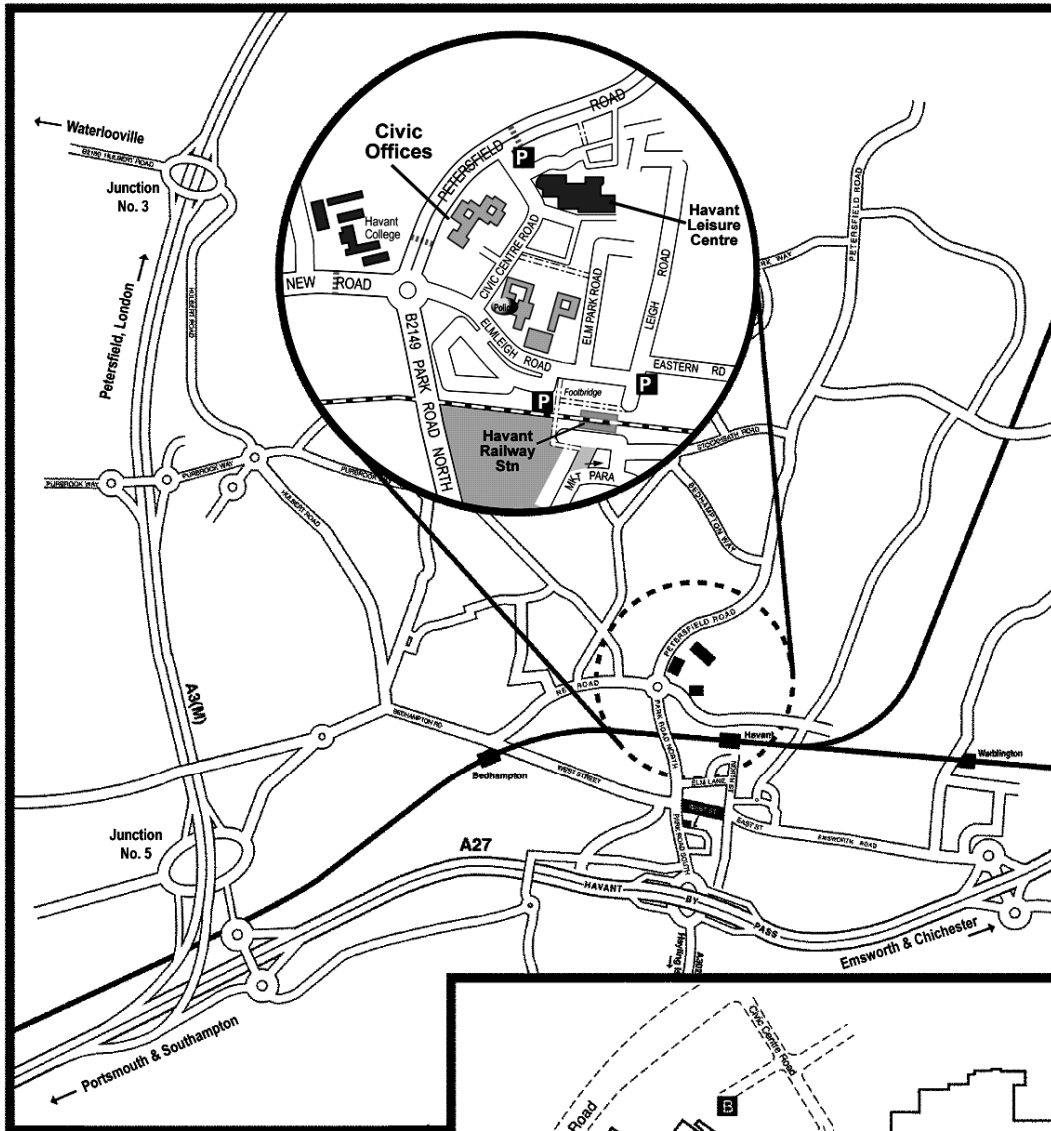
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HAVANT BOROUGH COUNCIL

At a meeting of the Governance & Audit Committee held on 20 November 2013

Present

Buckley, Hart, Shimbart, Mrs Smallcorn, Smith K and Wilson

1 Election of Chairman

Nominations for the post of Chairman were invited. One nomination was received and seconded. There were no further nominations.

RESOLVED that Councillor K Smith be appointed Chairman of the Governance and Audit Committee.

2 Apologies

Apologies for absence were received from Councillors O Kennedy and C Tarrant.

3 Minutes

RESOLVED that the minutes of the meeting of the Joint Governance Committee held on 16 September 2013 be approved as a correct record.

4 Matters Arising

A member of the Committee clarified that the "High" priorities discussed in Item 20 of the minutes involved two aspects, the health of staff and capacity issues.

5 Declarations of Interest

There were no declarations of interests from any of the members present.

6 Chairman's Report

The Chairman thanked Helen Thompson and Ian Young of Ernst & Young LLP for providing an interesting and informative presentation on external audit prior to the meeting. A copy of the presentation would be circulated to all members of the Committee after the meeting.

The Chairman confirmed that prior to the next meeting of the Committee scheduled for 5 March 2014 a presentation on the functions of internal audit would be received.

7 External Audit Papers

The Board considered three papers presented by Ernst and Young LLP. Ian Young, manager, Ernst & Young was invited to join the meeting for the

debate on this item and answered members' questions in connection with the report.

The Audit Progress Report 2012/13 set out the work undertaken to date since Ernst & Young LLP's appointment as auditor on 1 September 2012. The report provided the committee with an overview of the stage reached in the 2012/13 audit and an outline of their plans for the 2013/14 audit. It was confirmed that most responsibilities had been discharged and the final key deliverable, the report on the audit of grants claims, was due to be issued on 31 December 2013.

The Annual Audit Letter 2012/13 summarised the preliminary audit conclusion in relation to Havant Borough Council's financial position and results for year ended 31 March 2013. In response to a question over the payroll filing system it was confirmed that following issues a new filing system had been introduced in July 2013 which it was hoped would rectify the problems. It was suggested that an update would be provided for members following the next internal audit review of the payroll system which was currently underway.

A LG Sector Update was provided for information which summarised some of the current issues facing the Local Government sector. Members agreed it was a useful document and requested the update be provided at future meetings.

RESOLVED that the report be noted.

8 Code of Conduct Complaints

There was no business to discuss under this item.

The meeting commenced at 5.00 pm and concluded at 5.27 pm

NON-EXEMPT

HAVANT BOROUGH COUNCIL

Governance and Audit Committee

March 2014

EXTERNAL AUDIT PAPERS - HAVANT BOROUGH COUNCIL
Ernst & Young LLP

FOR INFORMATION

Portfolio: FINANCE – Councillor Jackie Branson

Key Decision: No

1.0 Purpose of Report

1.1 To outline the papers to be presented by Ernst & Young LLP.

2.0 Recommendation

2.1 We ask the Committee to note the content of the reports attached to this paper.

3.0 Summary

3.1 To fulfil our responsibilities as your external auditor we are required to present formally the papers attached to this report to those charged with governance.

4.0 Reports

4.1 Audit Progress Report

The purpose of this report is to provide the Governance and Audit Committee with an overview of the stage we have reached in your 2012/13 audit, and an outline of our plans for the 2013/14 audit.

4.2 Certification of claims and returns annual report 2012-13

This report relates to the audit of the Council's 2012/13 grant claims. The statement of responsibilities in respect of grant certification requires auditors to report the results of certification work to those charged with governance.

5.0 Implications

5.1 Resources: No direct implications

- 5.2 Legal: No direct implications
- 5.3 Strategy: No direct implications
- 5.4 Risks: No direct implications
- 5.5 Communications: No direct implications
- 5.6 For the Community: No direct implications

- 6.0 Consultation:** Executive Head of Governance & Logistics and Accountant (Financial & Governance)

- 6.1 Appendices:
 - 1. Audit Progress Report
 - 2. Certification of claims and returns annual report 2012-13

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Havant Borough Council

Governance and Audit Committee Progress Report

March 2014



Governance and Audit Committee
Havant Borough Council
Public Service Plaza
Civic Centre Road
Havant
PO9 2AX

24 February 2014

Audit Progress Report

We are pleased to attach our Audit Progress Report.

It sets out the work we have completed since our last report to the Committee. Its purpose is to provide the Committee with an overview of the completed 2012/13 audit, and an outline of our plans for the 2013/14 audit. This Progress Report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Audit Commission Standing Guidance, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Helen Thompson
Director
For and behalf of Ernst & Young LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Work completed: 2012/13

We are presenting our annual report on the certification of claims and returns to the Committee today. This completes our work in relation to the 2012/13 financial year.

Progress against key deliverables			
Key deliverable	Timetable in plan	Status	Comments
Fee Letter	December 2012	Completed	Reported to Joint Governance Committee March 2013
Audit Plan	March/April 2013	Completed	Presented at the May 2013 Joint Governance Committee
Reports to Those Charged with Governance	September 2013	Completed	Reported to Joint Governance Committee September 2013
Audit Reports (including opinion, vfm conclusion)	September 2013	Completed	Reported to Joint Governance Committee September 2013
Audit Certificates	September 2013	Completed	Reported to Joint Governance Committee September 2013
WGA submissions to NAO	September 2013	Completed	Reported to Joint Governance Committee September 2013
Annual Audit Letter	October 2013	Completed	Reported to Governance and Audit Committee November 2013
Report on the audit of Grant Claims	December 2013	Completed	Reported to Governance and Audit Committee March 2014

2013/14 audit

Fee letter

We issued our 2013/14 fee letter to the Joint Governance Committee on 12 March 2013.

Financial Statements

We adopt a risk based approach to the audit and as part of our ongoing continuous planning we have held a number of meetings with key officers and other stakeholders:

- January 2014 – our quarterly meeting with the Executive Head of Governance and Logistics and the Finance Service Manager to update our understanding of the challenges and risks you are facing. This forms a key part of our continuous audit planning.
- February 2014 – we have held ongoing discussions with key finance staff to discuss significant risks and emerging issues around the accounts preparation process.
- February 2014 – EY held a public sector accountancy workshop to update key accounting staff on the changing legislative and accounting landscape within local government for 2013/14. The Corporate Accountancy Team Leader attended on behalf of the Council.
- We continue to liaise with Internal Audit to ensure we can place reliance on their work where possible.

Our work to identify the material income and expenditure systems was completed in January 2014. The detailed walk through of these systems and testing of the controls and critical path of each material system is planned for February and March 2014. We will communicate the results of this work to you in our Audit Plan which will be presented to the Governance and Audit Committee in June.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll, cash payments and receipts and journal entries.

Value for money

The Audit Commission has now issued its guidance on the 2013/14 value for money conclusion. The full guidance can be found at <http://www.audit-commission.gov.uk/technicaldirectory/vfm1314/>.

There are no planned changes to the approach in 2013/14. Our initial risk assessment is ongoing and we will report the risks we have identified, and associated work we will carry out, to the June 2014 Governance and Audit Committee.

Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2013/14 Governance and Audit Committee cycle. We will provide formal reports to the Committee throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Associated Governance & Audit Committee	Status
High level planning	Ongoing	Audit Fee Letter	March 2013	Completed - Reported to the March 2013 Committee
Risk assessment and setting of scope of audit	Feb – April 2014	Audit Plan	June 2014	Started
Testing of routine processes and controls	Feb – April 2014	Audit Plan	June 2014	Started
Year-end audit	June - August 2014	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2014	-
Annual Reporting	October 2014	Annual Audit Letter	November 2014	-
Grant Claims	September – November 2014	Annual certification report	March 2015	

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Certification of claims and returns annual report 2012-13

Havant Borough Council

January 2014

Ernst & Young LLP



The Members – Governance and Audit Committee

Havant Borough Council
Public Service Plaza
Civic Centre Road
Havant
PO9 2AX

9 January 2014

Dear Members,

Certification of claims and returns annual report 2012-13 Havant Borough Council

We are pleased to report on our certification work. This report summarises the results of our work on Havant Borough Council's 2012-13 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require certification from an appropriately qualified auditor of the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to appointed auditors of the audited body set out the work they must undertake before issuing certificates and set out the submission deadlines.

Certification work is not an audit. Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

In 2012-13, the Audit Commission did not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors undertook only limited tests remained at £500,000. Above this threshold, certification work took account of the audited body's overall control environment for preparing the claim or return. The exception was the housing and council tax benefits subsidy claim where the grant paying department sets the level of testing.

Where auditors agree it is necessary, audited bodies can amend a claim or return. An auditor's certificate may also refer to a qualification letter where there is disagreement or uncertainty, or the audited body does not comply with scheme terms and conditions.

Statement of responsibilities

In March 2013 the Audit Commission issued a revised version of the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and

returns' (statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission website.

The statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

This annual certification report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2012-13 certification work.

We checked and certified two claims and returns with a total value of £72.8 million and we met all submission deadlines.

Fees for certification work are summarised in section 2. The Audit Commission applied a general reduction of 40% to certification fees in 2012-13 based on the 2010-11 actual fee.

We welcome the opportunity to discuss the contents of this report with you at the Governance and Audit Committee on 5 March 2014.

Yours faithfully



Helen Thompson
Director
Ernst & Young LLP
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Certification of claims and returns annual report 2012-13

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1. Summary of 2012-13 certification work

We certified two claims and returns in 2012-13. The main findings from our certification work are provided below.

Housing and council tax benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£42,541,716
Limited or full review	Full
Amended	Amended – subsidy decreased by £17,357
Qualification letter	Yes
Fee - 2012-13	£20,276
Fee - 2011-12	£23,974
Recommendations from 2011-12:	Findings in 2012-13
None	See table below

Councils run the Government's housing and council tax benefits scheme for tenants and council taxpayers. Councils responsible for the scheme claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' testing (extended testing) if initial testing identifies errors in the calculation of benefit or compilation of the claim. Our initial testing found a number of errors which resulted in additional fee being charged for the work undertaken, this is summarised in the table below:

Finding in initial sample

Rent Allowances: A registered rent claim had been incorrectly classified as a local housing allowance case.

Audit Response

Extended (40+) testing was undertaken and no other instances of the error were found. Subsequently a comparison against rent officer records was completed, no other errors were identified and the claim was amended.

Rent Allowances: An in year rent increase was not processed until the start of the 2013/14 financial year

As this resulted in an underpayment no extended testing was required. However, this was reported in the qualification letter that was sent to the DWP.

Rent Allowances: We identified one case where Income had been incorrectly assessed.

Extended (40+) testing was undertaken on overpayments, no other errors were identified and the claim was amended.

Rent Allowances: Two cases were identified where overpayments had been classified incorrectly between Local Authority error overpayments and eligible overpayments. This was due to the Authority following the Northgate subsidy system rather than DWP determination of overpayment types. This is a known difference and the software supplier produced a fix (BENCHK87) which had not been implemented at the Authority.

The adjustments proposed in the BENCHK87 report were made to the claim.

Council Tax Benefit: Two instances were identified where the claimant had died. At this point council tax liability should cease and any overpayment be classified within the technical excess benefit cell of the subsidy claim. However, due to a delay in processing the information in council tax, an eligible overpayment had been incorrectly created.

A drill down of all cases where the claimant had died in the year was undertaken. This identified a number of similar cases and the claim was amended.

Council Tax Benefit: Initial testing highlighted one case where there had been a number of changes in circumstances in a short period of time. This created a number of over and under payments and a subsequent reassessment resulted in a higher award for the period concerned, This didn't net off as expected and the claim therefore included the higher entitlement plus the overpayment, resulting in additional subsidy of £2.12 being claimed.

Extended (40+) testing was undertaken and no other cases were found. However due to the nature of the error, this issue was included in our qualification letter to the DWP.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£30,218,209
Limited or full review	Full
Amended	Not Amended
Qualification letter	No
Fee – 2012-13	£2,550
Fee – 2011-12	£4,324
Recommendations from 2011-12:	Findings in 2012-13
None	None

The Government runs a system of non-domestic rates using a national uniform business rate. Councils responsible for the scheme collect local business rates and pay the rate income over to the Government. Councils have to complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government.

We found no errors on the national non-domestic rates return and we certified the amount payable to the pool without qualification.

2. 2012-13 certification fees

For 2012-13 the Audit Commission replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each audited body. The indicative fee was based on actual certification fees for 2010-11 adjusted to reflect the fact that a number of schemes would no longer require auditor certification. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The indicative composite fee for Havant Borough Council for 2012-13 was £20,400. The actual fee for 2012-13 was £22,826 as a result of the additional testing required on the housing and council tax benefits subsidy claim. The additional fee for the housing and council tax benefit claim has been agreed with the Executive Head of Governance and Logistics but is yet to be formally agreed by the Audit Commission.

This compares to a charge of £28,298 in 2011-12.

Claim or return	2010-11	2011-12	2012-13	2012-13
	Actual fee	Actual fee	Indicative fee	Actual fee
	£	£	£	£
Certification of claims and returns - annual report	34,052	28,298	20,400	22,826
Total	34,052	28,298	20,400	22,826

3. Looking forward

For 2013-14, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2011-12, adjusted for any schemes that no longer require certification. The Audit Commission has indicated that the national non-domestic rates return will not require certification from 2013-14.

The Council's indicative certification fee for 2013-14 is £14,000. The actual certification fee for 2013-14 may be higher or lower than the indicative fee, if we need to undertake more or less work than in 2011-12 on individual claims or returns. Details of individual indicative fees are available at the following link:

<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-and-work-programme/individual-certification-fees/>

We must seek the agreement of the Audit Commission to any proposed variations to indicative certification fees. The Audit Commission expects variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the 2011-12 fee.

The Audit Commission has changed its instructions to allow appointed auditors to act as reporting accountants where the Commission has not made or does not intend to make certification arrangements. This removes the previous restriction saying that the appointed auditor cannot act if the Commission has declined to make arrangements. This is to help with the transition to new certification arrangements, such as those DCLG will introduce for business rates from 1 April 2013.

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HAVANT BOROUGH COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

INTERNAL AUDIT PROGRESS REPORT (31 January 2014)

Head of Southern Internal Audit Partnership

Portfolio: Governance and Logistics – Cllr Jackie Branson

Key Decision: No

1.0 Purpose of Report

1.1 The purpose of this paper is to provide the Governance and Audit Committee with an overview of internal audit activity against assurance work completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports.

2.0 Recommendation

2.1 That the Governance and Audit Committee note the Internal Audit Progress Report (31 January 2014) as attached.

3.0 Summary

3.1 Under the Accounts and Audit (England) Regulations 2011, the Council is responsible for:

- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and
- undertaking an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

3.2 In accordance with the Public Sector Internal Audit Standards and the Council's Internal Audit Charter, the Chief Internal Auditor is required to provide a written status report to the Governance and Audit Committee, summarising:

'communications on the internal audit activity's performance relative to its plan.'

3.3 Appendix 1 summarises the performance of internal audit for the period to 31 January 2014.

4.0 Implications

4.1 Resources:

Internal Audit is provided through the Southern Internal Audit Partnership. The audit plan consists of 380 audit days and remains fluid throughout the year to meet the changing needs of the Council.

4.2 Legal:

Compliance with the Accounts and Audit (England) Regulations 2011.

4.3 Strategy:

Internal audit plays a vital role in helping the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4.4 Risks:

The audit needs assessment follows a risk based audit approach taking cognisance of the Council's risk register. Havant's Corporate Risk Register as of 31 January 2014 can be accessed using the following link:

<http://havant.moderngov.co.uk/documents/s6245/Havant%20Corporate%20Risk%20Register%20as%20at%2031%20January%202014.pdf>

4.5 Communications:

None directly from this report.

4.6 Customers and Community:

None directly from this report although improvements to controls and governance arrangements will ensure more efficient and effective service delivery.

4.7 Integrated Impact Assessment (IIA):

N/A

5.0 Consultation

5.1 The report has been discussed and approved by the Management Team who met at the Executive Board on 04 February 2014.

Appendices:

Appendix 1 – Internal Audit Progress Report (31 January 2014)

Agreed and signed off by:

Legal Services: 04 February 2014

Finance: 03 February 2014

Executive Head of Governance & Logistics: 03 February 2014.

Contact Officer: Neil Pitman
Job Title: Head of Southern Internal Audit Partnership
Telephone: 01962 845139
E-Mail: neil.pitman@hants.gov.uk

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SUBJECT:	Internal Audit: Progress Report
MEETING:	Governance and Audit Committee
DATE OF MEETING:	05 March 2014
REPORT OF:	Head of Internal Audit Partnership
REPORT DATE:	31 January 2014

1 Opinion definitions – From 2013/14 onwards

Opinion	Framework of governance, risk management and management control
Substantial assurance	A sound framework of internal control is in place and is operating effectively. No risks to the achievement of system objectives have been identified.
Adequate assurance	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.
Limited assurance	Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.
No assurance	Fundamental weakness identified in the framework of internal control or the framework is ineffective or absent with significant risks.

2 Status of 'live' reports:								
Audit title	Report date	Audit Sponsor	Audit Assessment		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Cleared	Pending	Overdue
Finance	Dec 2011	G&L	Substantial*	Substantial*	6 (0)	5 (0)		1 (0)
IT Security Policy	Jan 2012	M&D	Limited*	Substantial *	10 (3)	8 (3)		2 (0)
Parking Services	Apr 2012	E&NQ	Limited*	Substantial *	4 (1)	2 (0)		2 (1)
Development control	Aug 2012	P&BE	Limited*	Substantial*	11 (0)	10 (0)		1 (0)
Data protection breaches (special investigation)	Aug 2012	G&L	Limited*	Limited*	14 (1)	12 (1)		2 (0)
Food safety and noise control	Sep 2012	E&NQ	Substantial*	Substantial*	14 (1)	12 (1)		2 (0)
Fraud prevention	Sep 2012	G&L	Substantial*	Substantial*	5 (0)	4 (0)		1 (0)
Operational services procurement	Apr 2013	E&NQ	Limited*	Substantial*	13 (0)	12 (0)		1 (0)
Developer contributions	May 2013	P&BE	Limited*	Substantial*	9 (0)	5 (0)		4 (0)
Information Management	23/08/13	M&D	N/A	N/A	2 (0)		1 (0)	1 (0)
Vehicle Maintenance	10/10/13	E&NQ	Adequate	Adequate	5 (1)	3 (1)	1 (0)	1 (0)
Lease income	16/12/13	G&L	Adequate	Adequate	7 (0)	3 (0)	4 (0)	
Accounts payable	06/01/14	G&L	Adequate	Adequate	1 (0)		1 (0)	

Audit title	Report date	Audit Sponsor	Audit Assessment		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Cleared	Pending	Overdue
Pro-active Fraud Initiatives	23/01/14	G&L	Adequate	Adequate	2 (0)		2 (0)	
NNDR	31/01/14	G&L	Substantial	Substantial	1 (0)		1 (0)	
Payroll	31/01/14	G&L	Adequate	Adequate	3 (0)		3 (0)	

*The audit assessments/opinions are in accordance with the definitions in place prior to 2013/14. See Appendix A for the previous definitions.

Key to Sponsors:

Key to Audit Sponsors	
Executive Head Marketing and Development	M&D
Executive Head Governance and Logistics	G&L
Executive Head Environment and Neighbourhood Quality	E&NQ
Executive Head Planning and Built Environment	P&BE

3 Internal Audit Performance

The internal audit service is measured against the following key performance targets:

Performance Targets – January 2014		
	Target for Year (%)	Actual to Date (%)
% of revised plan delivered (including 2012/13 c/f)	95	68
Compliant with the Public Sector Internal Audit Standards	Yes	Yes
% of positive customer responses to Quality Appraisal Questionnaire	90	100

4 Planning and Resourcing

The internal audit plan for 2013/14 was prepared following meetings with the Executive Heads and Service Managers and was presented to the Executive Board on 30 July. The audit plan remains fluid to ensure audit resource is effectively aligned to the Council's needs. Progress against the plan is detailed within section 7.

Progress against the 2013/14 plan is less than would normally be expected. Resource was intentionally deferred to enable the plan to be formally approved by Senior Management (30 July 2013) and the Board (16 September 2013). Officer availability and deferment of a number of reviews until quarters three and four has also contributed towards the slower progress however we remain confident the work will be delivered to a successful conclusion to inform the annual audit opinion.

5 Significant issues arising

No significant issues have arisen from the audit work completed to date.

6 Fraud and Irregularities

No new fraud investigations have been reported this year to date for the Council.

7 Rolling work programme 2013/14 audit plan

Audit title	Audit Sponsor	Audit progress					
		Audit scoping started	Audit outline issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
Corporate Cross cutting							
Business continuity planning	M&D	✓	✓	✓			
Contract Management - Client Monitoring	Various	✓	✓	✓	✓		
Information Management	M&D	✓	✓	✓	✓	✓	23/08/13
NFI	G&L	N/A	N/A	✓	N/A	N/A	N/A
Partnership Management	Various	✓	✓	✓	✓	✓	
Procurement	G&L	✓	✓	✓	✓	✓	
Project management	M&D	✓	✓				
Risk management	G&L	✓	✓	✓			
Corporate Governance							
Proactive fraud initiatives	G&L	✓	✓	✓	✓	✓	27/01/14

Audit title	Audit Sponsor	Audit progress						
		Audit scoping started	Audit outline issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued	
Constitution	G&L	✓	✓	✓	✓	✓	06/09/13	
Health and safety at work	G&L	✓	✓	✓				
Special Investigations	G&L	N/A	N/A	N/A	N/A	N/A	N/A	
Annual review of effectiveness of Internal Audit	G&L	✓	✓	✓	✓	✓	05/03/14	
Financial Management								
Lease Income	G&L	✓	✓	✓	✓	✓	16/12/13	
Benefits	G&L	✓	✓	✓				
Capital Purchases	G&L	Q4						
Accounts Payable	G&L	✓	✓	✓	✓	✓	06/01/14	
Finance - Budgetary Control	G&L	✓	✓					
Finance – Main Accounting	G&L	✓	✓	✓	✓			
NNDR	G&L	✓	✓	✓	✓	✓	31/01/14	
Payroll	G&L	✓	✓	✓	✓	✓	31/01/14	

Audit title	Audit Sponsor	Audit progress					
		Audit scoping started	Audit outline issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
SCOPAC (Standing Conference on Problems Associated with the Coastline) accounts	G&L	✓	✓	✓	✓	✓	
Information Technology							
Computer implementations (Finance)	G&L	Advice role					
Mod Gov	M&D	✓	✓	✓			
Corporate objective - economic growth - No audits in 2013/14 plan							
Corporate objective - public service excellence							
Vehicle Maintenance	E&NQ	✓	✓	✓	✓	✓	10/10/13
Coastal Defence Partnership – stage 1	P&BE	✓	✓	✓	✓	✓	27/06/13
Coastal Defence Partnership – stage 2	P&BE	✓	✓	✓			
Disabled Facilities Grants	E&NQ	✓	✓	✓	✓	✓	23/08/13
Corporate objective - financial sustainability							
Asset Acquisition Strategy	G&L	✓	✓	✓			

Key to Audit Sponsors	
Executive Head Marketing and Development	M&D
Executive Head Governance and Logistics	G&L
Executive Head Environment and Neighbourhood Quality	E&NQ
Executive Head Planning and Built Environment	P&BE

Appendix A

Opinion	Framework of governance, risk management and management control
Full	<p>Evaluation opinion - There is a sound system of control designed to achieve the system objectives, and</p> <p>Testing opinion – The controls are being consistently applied.</p>
Substantial	<p>Evaluation opinion – While there is a basically sound system there are weaknesses which put some of the control objectives at risk, and/or</p> <p>Testing opinion – There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.</p>
Limited	<p>Evaluation opinion – Weaknesses in the system of controls are such as to put the system objectives at risk, and/or</p> <p>Testing opinion – The level of non-compliance puts the system objectives at risk.</p>
No Assurance	<p>Evaluation opinion – Control is generally weak leaving the system open to significant error or abuse, and/or</p> <p>Testing opinion – Significant non-compliance with basic controls leaves the system open to error or abuse.</p>

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HAVANT BOROUGH COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

INTERNAL AUDIT CHARTER

Head of Southern Internal Audit Partnership

Portfolio: Governance and Logistics – Cllr Jackie Branson

Key Decision: No

1.0 Purpose of Report

- 1.1 The purpose of this paper is to provide the Governance and Audit Committee with the Internal Audit Charter for 2014/15.
- 1.2 With effect from 1 April 2013 all public sector bodies were required to adopt the Public Sector Internal Auditing Standards [the Standards]. The objectives of the Standards are to:
- Define the nature of internal auditing within the UK public sector;
 - Set basic principles for carrying out internal audit in the UK public sector;
 - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
 - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 1.3 The Internal Audit Charter formally defines the internal audit activity's purpose, authority and responsibility in line with the Standards.

2.0 Recommendation

- 2.1 That the Governance and Audit Committee approve the Internal Audit Charter for 2014/15.

3.0 Summary

- 3.1 Organisations in the UK public sector were previously covered by a variety of internal audit standards. Within Local Government (up until the 1 April 2013) the Standards were those prescribed in the Chartered Institute of Public Finance & Accountancy's (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
- 3.2 Collaboration between Chartered Institute of Public Finance & Accountancy and the Institute of Internal Auditors (IIA) has led to an

agreement between the relevant internal audit standard setters to develop a set of internal audit standards applicable to all areas of UK public sector.

- 3.3** With effect from 1 April 2013 internal audit services across the public sector have been governed by the Public Sector Internal Audit Standards (the Standards).
- 3.4** Within the Standards there is a requirement for an 'Internal Audit Charter', a formal document that defines the purpose, authority and responsibility of the internal audit activity. The proposed charter is attached at Appendix 1.
- 3.5** The Internal Audit Charter must be reviewed periodically (as a minimum annually) by the Chief Internal Auditor and presented to 'Senior Management' and 'the Board'. The Board is defined as

'the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Governance and Audit Committee'.

4.0 Implications

4.1 Resources:

Internal Audit is provided through the Southern Internal Audit Partnership. The audit plan consists of 380 audit days and remains fluid throughout the year to meet the changing needs of the Council.

4.2 Legal:

Compliance with the Accounts and Audit (England) Regulations 2011.

4.3 Strategy:

Internal audit plays a vital role in helping the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4.4 Risks:

The audit needs assessment follows a risk based audit approach taking cognisance of the Council's risk register. Havant's Corporate Risk Register as of 31 January 2014 can be accessed using the following link: <http://havant.moderngov.co.uk/documents/s6245/Havant%20Corporate%20Risk%20Register%20as%20at%2031%20January%202014.pdf>

4.5 Communications:

None directly from this report.

4.6 Customers & Community:

None directly from this report although improvements to controls and governance arrangements will ensure more efficient and effective service delivery.

4.7 Integrated Impact Assessment (IIA):
n/a.

5.0 Consultation

5.1 The report has been discussed and approved by the Management Team who met at the Executive Board on 04 February 2014.

Appendices:

Appendix 1 – Internal Audit Charter

Agreed and signed off by:

Legal Services: 04 February 2014

Finance: 03 February 2014

Executive Head of Governance & Logistics: 03 February 2014

Contact Officer: Neil Pitman
Job Title: Head of Southern Internal Audit Partnership
Telephone: 01962 845139
E-Mail: neil.pitman@hants.gov.uk

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Internal Audit Charter

Introduction

Organisations in the UK public sector have historically been governed by an array of differing internal audit standards. The Public Sector Internal Audit Standards, which took effect from the 1 April 2013, provide a consolidated approach across the whole of the public sector providing continuity, sound corporate governance and transparency.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'. The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility.

Authority

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2011, which states that a relevant body must:

'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [the Standards].

Purpose

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

The role of internal audit is best summarised through its definition within the Standards, as an:

'independent, objective assurance and consulting activity designed to add value and improve an organisations 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'.

Responsibility

The responsibility for maintaining an adequate and effective system of internal audit within Havant Borough Council lies with the Executive Head of Governance & Logistics, as the authority's Chief Finance Officer (S151 Officer).

For the Council, internal audit is provided by the Southern Internal Audit Partnership.

The Chief Internal Auditor (Head of Southern Internal Audit Partnership) is responsible for effectively managing the internal audit activity in accordance with the '*Definition of Internal Auditing*', the '*Code of Ethics*' and '*the Standards*'.

Definitions

For the purposes of this charter the following definitions shall apply:

The Board – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Governance and Audit Committee.

Senior Management – those responsible for the leadership and direction of the Council. At the Council this shall mean the Executive Board.

Position in the organisation

The Chief Internal Auditor reports functionally to the Board, and organisationally to the Executive Head of Governance & Logistics who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of the Council's affairs.

The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

The Chief Internal Auditor has direct access to the Council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards.

Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Governance and Audit Committee).

Internal audit resources

The Chief Internal Auditor will be professionally qualified (Chartered Member of the Institute of Internal Auditors - CMIIA, Consultative Committee of Accountancy Bodies - CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The Executive Head of Governance & Logistics, will provide the Chief Internal Auditor with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

'*Senior Management*' and '*the Board*' will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to '*Senior Management*' and '*the Board*', for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to '*Senior Management*' and '*the Board*'.

If the Chief Internal Auditor, '*the Board*' or '*Senior Management*' consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Executive Head of Governance & Logistics, accordingly.

Independence and objectivity

Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice.

Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to '*Senior Management*' and '*the Board*';
- reports functionally to '*the Board*';
- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team;
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements; and
- ensures the planning process recognise and address potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to *'Senior Management'* and *'the Board'*. The nature of the disclosure will depend upon the impairment.

Due professional care

Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

Internal auditors will apprise themselves of the *'Definition of Internal Auditing'*, the *'Code of Ethics'* and the *'Standards'* and will work in accordance with them in the conduct of their duties.

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Chief Internal Auditor in accordance with the Council's laid down procedures.

Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

Access to relevant personnel and records

In carrying out their duties, internal audit (on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to the Council or its key delivery partner organisations.

Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

Scope of Internal Audit activities

The Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The Council assume a Key Stakeholder role within the Southern Internal Audit Partnership (SIAP). The SIAP currently provides internal audit services to a wide portfolio of public sector clients (Annex 1) through a variety of partnership and sold service delivery models.

A range of internal audit services are provided (Annex 2) to form the annual opinion for each member / client of the Southern Internal Audit Partnership. The approach is

determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the organisations success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls. Additionally, proactive fraud reviews will be incorporated within the plan to deter and detect fraud, covering known areas of high risk.

Managers are required to report all suspicions of theft, fraud and irregularity to the Chief Internal Auditor. The Chief Internal Auditor manages and controls all investigations and will ensure that investigators are fully trained in carrying out their responsibilities.

Where there is evidence that Council staff are committing fraud, internal audit will liaise with Human Resources and the department concerned. The decision on whether to invoke criminal proceedings will be made by the Chief Internal Auditor in conjunction with the Monitoring Officer.

The monitoring of the Council's Anti-Fraud Strategy will be the responsibility of the Chief Internal Auditor, as part of the monitoring of the annual internal audit plan.

Internal audit also facilitate the Council's participation in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

Reporting

Chief Internal Auditor's Annual Report and Opinion

The Chief Internal Auditor shall deliver an annual internal audit opinion and report that can be used by the organisation to inform it's governance statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report will incorporate as a minimum:

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Senior Management

As those responsible for the leadership and direction of the Council it is imperative that the Executive Board are engaged in:

- approving the internal audit charter (minimum annually);
- approving the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations; and
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance.

The Board

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- approving the internal audit resource plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations;
- agreement of the scope and form of the external assessment as part of the quality management and improvement plan;
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance; and
- approval of significant consulting services not already included in the audit plan, prior to acceptance of the engagement.

Review of the internal audit charter

This charter will be reviewed annually (minimum) by the Chief Internal Auditor and presented to '*Senior Management*' and '*the Board*' for approval.

Southern Internal Audit Partnership – Client Portfolio

Strategic Partners:	Hampshire County Council Southampton City Council
Key Stakeholder Partners:	Havant Borough Council East Hampshire District Council Winchester City Council
External clients:	Hampshire Fire & Rescue Authority Office of the Police & Crime Commissioner / Hampshire Constabulary Hampshire Pension Fund

Higher Education Institutions

University of Winchester

Further Education Institutions and Sixth Form Colleges

Brockenhurst;
Eastleigh;
Fareham;
Farnborough College of Technology (FCoT);
Highbury;
Itchen;
Peter Symonds;
Portsmouth;
Queen Mary College (QMC);
St Vincent's;
Taunton's; and
Totton.

Assurance Services

- **Risk based audit:** in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.
- **Developing systems audit:** in which:
 - the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
 - programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.
- **Compliance audit:** in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.
- **Quality assurance review:** in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.
- **Fraud and irregularity investigations:** Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. Internal audit's role in this respect is outlined in the Council's Anti Fraud and Anti Corruption Strategy.
- **Advisory / Consultancy services:** in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.

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HAVANT BOROUGH COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

INTERNAL AUDIT PLAN 2014-2015

Head of Southern Internal Audit Partnership

Portfolio: Governance and Logistics – Cllr Jackie Branson

Key Decision: No

1.0 Purpose of Report

- 1.1 The purpose of this paper is to provide the Governance and Audit Committee with the Internal Audit Plan 2014–2015 for Havant Borough Council (Appendix 1).
- 1.2 The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities, systems or processes under review that:
 - The framework of internal control, risk management and governance is appropriate and operating effectively; and
 - Risks to the achievement of the Council's objectives are identified, assessed and managed to a defined acceptable level.

2.0 Recommendation

- 2.1 That the Governance and Audit Committee approve the Internal Audit Plan 2014-2015.

3.0 Summary

- 3.1 The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.
- 3.2 The strategic audit plan has historically projected audit activity over a 3 year period, however due to the rapidly changing local government environment, the relevance of predicting future year's coverage at this stage would be of questionable value.
- 3.3 Internal audit focus should be proportionate and appropriately aligned; as such resources primarily concentrate on high and medium priority reviews.

- 3.4** All low priority review areas remain within the audit universe and are reassessed on an annual basis, however, will not be routinely incorporated in the planning process if continued to be assessed as a low priority.
- 3.5** The plan will remain fluid and subject to on-going review, and amended in consultation with the relevant officers, to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Chief Internal Auditor's continued contact and liaison with those responsible for the governance of the Council.
- 3.6** Other reviews, based on criteria other than risk, may also be built into the work plan. These may include 'mandatory' audits or reviews requested or commissioned by management. Any commissioned review must be able to clearly demonstrate a contribution to the audit opinion on risk management, control and governance.
- 3.7** The internal audit team have adopted a matrix style approach to enable the delivery of the plan, by using a resource pool of multi disciplinary auditors capable of forming into teams as audit projects determine.
- 3.8** This approach will ensure seasonal peaks in demand can be effectively managed, an appropriate level of independence in the rotation of audit reviews and the avoidance of over reliance on individual areas of expertise.
- 3.9** The Council's 'internal audit charter' ensures the Chief Internal Auditor has sufficient resource necessary to fulfil the requirements and expectations to deliver an internal audit opinion.
- 3.10** Significant matters that jeopardise the delivery of the plan, or require changes to the plan will be identified, addressed and reported to the Management Team.
- 3.11** The endorsement and sponsorship of the plan at Member / Executive Head level will assist in providing the engagement and buy-in of staff at an operational level to ensure the outcome of audit reviews are optimised.
- 3.12** A key role of internal audit is to objectively examine, evaluate and report on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 3.13** A clear objective of the risk based audit approach adopted is to identify any instances of over as well as under control and provide management with a clear articulation of residual risks where existing controls are inadequate.
- 3.14** In a climate where it is necessary to become less process driven and eliminate unproductive tasks, internal audit will not become (or perceived) as a barrier to innovation. Whilst it is imperative that

Internal Audit continue to ensure an appropriate control environment exists and appropriately reported on, the service is ideally positioned and has been appropriately briefed to challenge current practice and where applicable highlight duplication and over control, contributing to efficiencies across the Council.

4.0 Implications

4.1 Resources:

Internal Audit is provided through the Southern Internal Audit Partnership. The audit plan consists of 380 audit days and remains fluid throughout the year to meet the changing needs of the Council.

4.2 Legal:

Compliance with the Accounts and Audit (England) Regulations 2011.

4.3 Strategy:

Internal audit plays a vital role in helping the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4.4 Risks:

The audit needs assessment follows a risk based audit approach taking cognisance of the Council's risk register. Havant's Corporate Risk Register as of 31 January 2014 can be accessed using the following link:

<http://havant.moderngov.co.uk/documents/s6245/Havant%20Corporate%20Risk%20Register%20as%20at%2031%20January%202014.pdf>

4.5 Communications:

None directly from this report.

4.6 Customers & Community:

None directly from this report although improvements to controls and governance arrangements will ensure more efficient and effective service delivery.

4.7 Integrated Impact Assessment (IIA):

n/a

5.0 Consultation

5.1 The report has been discussed and approved by the Management Team who met at the Executive Board on 04 February 2014.

Appendices:

Appendix 1 – Internal Audit Plan 2014 - 2015

Agreed and signed off by:

Legal Services: 04 February 2014

Finance: 03 February 2014

Executive Head of Governance & Logistics: 03 February 2014.

Contact Officer: Neil Pitman
Job Title: Head of Southern Internal Audit Partnership
Telephone: 01962 845139
E-Mail: neil.pitman@hants.gov.uk

APPENDIX 1

Havant Borough Council Internal Audit Plan 2014-2015

Audit	Audit Sponsor	Priority H/M/L	2014/15
Corporate cross cutting			
HR	Debbie Fox	M	✓
Information Management	Jane Eaton	M	✓
NFI	Jane Eaton	H	✓
Performance Management Systems	Debbie Fox	M	✓
Corporate governance			
Proactive Fraud Initiatives	Jane Eaton	M	✓
Code of Conduct	TBC	M	✓
Review of Annual Governance statement	Jane Eaton	M	✓
Special Investigation	Jane Eaton		✓
Annual Review of Effectiveness of Internal Audit	Jane Eaton		✓
Financial management			
Parking	Jackie Batchelor	M	✓
Income Collection and Banking	Jane Eaton	M	✓
Council Tax	Jane Eaton	H	✓
Accounts Receivable / Debt Management	Jane Eaton	H	✓
Finance - Budgetary Control	Jane Eaton	H	✓
Finance - Treasury Management	Jane Eaton	M	✓
Standing Conference on Problems Associated with the Coastline accounts	Jane Eaton	N/A	✓
Information technology			
Computer Implementations	Debbie Fox	H	✓
ICT Contract	Debbie Fox	H	✓
ICT Hosted Services	Debbie Fox	M	✓
ICT Policies and Security	Debbie Fox	M	✓
Corporate objective – public service excellence			
Depot Services	Jackie Batchelor	H	✓
Fuel Management	Jackie Batchelor	M	✓
Building Control	Julia Potter	M	✓
Licencing	Jackie Batchelor	M	✓
Planning Development – Fee Income	Julia Potter	M	✓
Crematorium Partnership	Jackie Batchelor	M	✓
Impact of Welfare Reform	Tim Slater	H	✓
Beach Huts	Jane Eaton / Jackie Batchelor	L	✓
Corporate objective – financial sustainability			
Developers Obligations and Contributions / Community Infrastructure Levy	Julia Potter	M	✓

Audit	Audit Sponsor	Priority H/M/L	2014/15
Other direct audit activity			
Advice and Liaison			✓
Annual Internal Audit Report			✓
Audit Committee			✓
Audit Strategy and Planning			✓
External Audit			✓
Follow ups			✓
Monitoring and Progress Reports			✓
Total plan days			380

HAVANT BOROUGH COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

Head of Southern Internal Audit Partnership

Portfolio: Governance and Logistics – Cllr Jackie Branson

Key Decision: No

1.0 Purpose of Report

1.1 Under the Accounts and Audit (England) Regulations 2011 the Council is required, at least once a year, *'to conduct a review of the effectiveness of its internal audit'*. The purpose of this paper is to provide the Governance and Audit Committee with an overview of the measures currently in place to monitor and maintain internal audit effectiveness.

2.0 Recommendation

2.1 That the Governance and Audit Committee:

- approve the review conducted in assessing the 'Effectiveness of the System of Internal Audit'; and
- endorse the action plan generated from the assessment against the Public Sector Internal Audit Standards.

3.0 Summary

3.1 The Accounts and Audit (England) Regulations 2011 - S6 states:

'(1) A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'

'(3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.'

3.2 With effect from 1 April 2013 the 'Public Sector Internal Audit Standards' and the 'Local Government Application Note' together supersede the 2006 Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom (the 2006 Code) as *'proper practices'*.

3.3 The Public Sector Internal Audit Standards encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework as follows:

- Definition of Internal Auditing;
- Code of Ethics; and
- International Standards for Professional Practice of Internal Auditing.

Compliance with proper practices (Public Sector Internal Audit Standards / Local Government Application Note)

- 3.4** In addition to legislative requirements contained with the Accounts and Audit (England) Regulations 2011, the Public Sector Internal Audit Standards require the Chief Internal Auditor to maintain a ‘quality assurance and improvement programme’ which includes provision for both internal and external assessment.
- 3.5** Self- assessments are required to be undertaken annually with external assessments to be conducted at least once every five years by a qualified, independent assessor or assessment team. For 2013/14 a self-assessment against the Public Sector Internal Audit Standards has been undertaken.
- 3.6** The ‘Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards’ provides a checklist that has been developed to enable periodic self-assessment as part of the Quality Assurance and Improvement Programme.
- 3.7** In completion of the self-assessment the Chief Internal Auditor undertook an initial evaluation of the audit service against the checklist, and compiled documentary evidence to verify compliance. To provide independent scrutiny the Deputy Monitoring Officer at Hampshire County Council then considered each of the Standards for compliance against the self assessment and supporting documentation, concluding *‘I am satisfied that this is an accurate assessment of the internal audit function’*.
- 3.8** The summary of the self-assessment against the 341 Standards highlights:

Compliant			
Yes	Partial	No	N/A
322	1	1	17

- 3.9** In areas of ‘partial’ or ‘no’ compliance an action plan has been put in place to stimulate improvement (Appendix 1).

3.10 In addition to compliance against the 'Public Sector Internal Audit Standards' and 'Local Government Application Note' the Southern Internal Audit Partnership demonstrate effective performance management and quality assurance through:

- meeting internal quality standards;
- effective, efficient and continuous improvement; and
- added value and assisting the organisation achieve its objectives.

Meeting internal quality standards

3.11 A comprehensive and up-to-date framework is in place and available to all staff to provide guidance on quality standards in carrying out day-to-day audit work in compliance with proper practices.

3.12 A system of quality checks is in place to ensure all internal audit work is appropriately supervised and reviewed throughout all audits to monitor progress, assess quality and coach staff.

3.13 The Southern Internal Audit Partnership operates a quality system (ISO 9001:2008) which covers all our audit reviews including irregularity reviews.

3.14 The use of audit management software (MK Insight) enables performance management information to be more readily available, and provides a consistency to the audit process followed.

Effective, efficient and continuously improving

3.15 On 1 February 2012 Hampshire County Council entered into a collaborative partnership with Southampton City Council for the provision of internal audit services to form the Southern Internal Audit Partnership.

3.16 The development of the Southern Internal Audit Partnership brings together the professional discipline of internal audit across partnering organisations.

3.17 The Partnership has grown since its formation and currently incorporates five local authorities (including Havant Borough Council). The Partnership also provides services to a range of clients including Hampshire Police and Crime Commissioner / Hampshire Constabulary, Hampshire Fire & Rescue Authority, Hampshire Pension Fund, the University of Winchester and 12 Further Education establishments.

3.18 Realised benefits since the introduction of the partnership include pooled expertise, economies of scale, flexibility and resilience.

3.19 The team operate a modern risk based audit approach, focusing on medium and high priority areas within the audit universe.

- 3.20** The risk-based internal audit plan ensures it:
- aligns with the Council’s objectives;
 - is proportionate and focused; and
 - adds maximum value to the organisation.
- 3.21** The annual audit plan remains fluid and responsive should the risk environment change during the year.
- 3.22** The Southern Internal Audit Partnership has adopted a matrix style approach, by using a resource pool of multi disciplinary auditors capable of forming into teams as audit projects determine. This approach ensures an appropriate level of independence in the rotation of audit reviews and the avoidance of over reliance on individual areas of expertise.
- 3.23** The audit report format ensures a focused and value adding document, appropriate to its target audience.

Adding value and assisting the organisation in achieving its objectives

- 3.24** The ‘Risk-based Audit Plan’ demonstrates intended audit coverage aligned to the Council’s objectives.
- 3.25** One of the key deliverables for internal audit is to provide independent and objective assurance to management on the adequacy or otherwise of the effectiveness of the framework of risk management, control and governance designed to support the achievement of their objectives.
- 3.26** This in itself can be viewed as providing added value to the organisation, however, there are a number of other dimensions to the work of internal audit that add value to the organisation:
- Assess and report risk exposure;
 - Improve opportunities to achieve organisational objectives;
 - Identify over control and opportunities for efficiencies; and
 - Identify operational improvements.
- 3.27** The ‘Progress Report’ presented to each meeting of the Governance and Audit Committee demonstrates how management is responding to the issues and risks highlighted by internal audit’s work and that management actions in response to audit observations are properly implemented on a timely basis.
- 3.28** Formal client feedback is sought in respect of each audit assignment conducted by means of a “client feedback survey”.

Role of the Governance and Audit Committee

3.29 The Governance and Audit Committee plays an essential role in the effectiveness of the system of internal audit through its function to monitor, review and report on the way in which governance is exercised within the Council, particularly with regard to:

- receipt and consideration of reports on internal audit strategy, planning and delivery, including the Chief Internal Auditor's Annual Report and Opinion;
- view on internal assurances of governance practice and to be satisfied that the Council's assurance statements properly reflect the risk environment and any actions required to improve it; and
- consideration of the Council's compliance with its own and other published standards and controls.

4.0 Implications

4.1 Resources:

Internal Audit is provided through the Southern Internal Audit Partnership. The audit plan consists of 380 audit days and remains fluid throughout the year to meet the changing needs of the Council.

4.2 Legal:

Compliance with the Accounts and Audit (England) Regulations 2011.

4.3 Strategy:

Internal audit plays a vital role in helping the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4.4 Risks:

The audit needs assessment follows a risk based audit approach taking cognisance of the Council's risk register. Havant's Corporate Risk Register as of 31 January 2014 can be accessed using the following link: <http://havant.moderngov.co.uk/documents/s6245/Havant%20Corporate%20Risk%20Register%20as%20at%2031%20January%202014.pdf>

4.5 Communications:

None directly from this report.

4.6 Customers & Community:

None directly from this report although improvements to controls and governance arrangements will ensure more efficient and effective service delivery.

4.7 Integrated Impact Assessment (IIA):

N/A

5.0 Consultation

The report has been discussed and approved by the Management Team who met at the Executive Board on 18 February 2014.

Appendices:

Appendix 1 – Compliance against the Public Sector Internal Audit Standards – Action Plan

Agreed and signed off by:

Legal Services: 18 February 2014

Finance: 13 February 2014

Executive Head of Governance & Logistics: 13 February 2014

Contact Officer: Neil Pitman
Job Title: Head of Southern Internal Audit Partnership
Telephone: 01962 845139
E-Mail: neil.pitman@hants.gov.uk

**Summary of Compliance against the
Public Sector Internal Audit Standards**

Section	Standard	Compliant				Total
		Yes	Partial	No	N/A	
1	Definition of Internal Auditing	3	-	-	-	3
2	1 Code of Ethics	13	-	-	-	13
3	Attribute Standards					
3.1	Purpose, Authority and Responsibility	23	-	-	-	23
3.2	Independence and Objectivity	30	-	1	3	34
3.3	Proficiency and Due Professional Care	21	-	-	-	21
3.4	Quality Assurance and Improvement Programme	19	-	-	8	27
4	Performance Standards					
4.1	Managing the Internal Audit Activity	46	1	-	-	47
4.2	Nature of Work	31	-	-	-	31
4.3	Engagement Planning	58	-	-	-	58
4.4	Performing the Engagement	23	-	-	-	23
4.5	Communicating Results	49	-	-	6	55
4.6	Monitoring Progress	4	-	-	-	4
4.7	Communicating the Acceptance of Risks	2	-	-	-	2
Total		322	1	1	17	341

**Public Sector Internal Auditing Standards
Action Plan – Partial Compliance**

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
4.1 - Managing the Internal Audit Activity					
<p>Has the Chief Audit Executive carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?</p> <p>Page 66</p>	Partial	The audit planning process seeks to establish other sources of assurance; however, no formal mapping exercise is undertaken.	<p>Audit planning for 2014/15 will commence in December 2013.</p> <p>Internal audit will develop a formal framework to record other sources of assurance and ensure this feeds into risk assessments as part of annual planning and at an individual assignment level.</p>	Chief Internal Auditor	February 2014

**Public Sector Internal Auditing Standards
Action Plan – No Compliance**

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
3.2 - Independence and Objectivity					
<p>Does the board: e) approve decisions relating to the appointment and removal of the Chief Audit Executive</p>	No	<p>The Local Authorities (Standing Orders) (England) Regulations 2001 govern procedures in respect of the appointment & dismissal of certain senior officers. By virtue that the Chief Internal Auditor reports directly to the Director of Corporate Resources this post falls within the ambit of a 'senior officer'. The County Council's Standing Orders require any Appointment Committee to comprise of at least two Executive Members</p>	<p>To continue to follow existing County Council Standing Orders and procedures in the appointment and dismissal of the Chief Internal Auditor</p>	-	-

**Public Sector Internal Auditing Standards
Action Plan – Not Applicable**

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
3.2 - Independence and Objectivity					
Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?	N/A	There have been no known instances where an internal auditor has used information for personal gain	-	-	-
If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the Chief Audit Executive and senior management/the board as set out in the internal audit charter)?	N/A	There have been no known instances of real or apparent impairment of independence or objectivity.	-	-	-
If there have been any assurance engagements in areas over which the Chief Audit Executive also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	N/A	The Chief Internal Auditor has no operational responsibilities outside of the internal audit function.	-	-	-
3.4 - Quality Assurance and Improvement Programme					
Has the Chief Audit Executive included the results of the Quality Assurance and Improvement Programme and progress against any improvement plans in the annual report?	N/A	The Public Sector Internal Audit Standards were introduced in April 2013.	Results of the Quality Assurance and Improvement Programme to be included within the 2013/14 Annual Audit Report and Opinion.	Chief Internal Auditor	June 2014

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
Has the Chief Audit Executive considered the pros and cons for the different types of external assessment (i.e. 'full' or self-assessment plus 'independent validation')?	N/A	<p>The requirement for an external assessment (to be undertaken every 5 years) is new.</p> <p>The Public Sector Internal Audit Standards took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.</p>	<p>The Chief Internal Auditor will present a paper to Senior Management and the Board exploring the options, form, timing and scope of the external assessment.</p>	Chief Internal Auditor	April 2014
Has the Chief Audit Executive discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?	N/A	<p>The requirement for an external assessment (to be undertaken every 5 years) is new.</p> <p>The Public Sector Internal Audit Standards took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.</p>	<p>The Chief Internal Auditor will present a paper to Senior Management and the Board exploring the options, form, timing and scope of the external assessment.</p>	Chief Internal Auditor	April 2014

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
<p>Has the Chief Audit Executive agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the Chief Finance Officer or the chief executive?</p>	N/A	<p>The requirement for an external assessment (to be undertaken every 5 years) is new.</p> <p>The Public Sector Internal Audit Standards took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.</p>	<p>The Chief Internal Auditor will present a paper to Senior Management and the Board exploring the options, form, timing and scope of the external assessment.</p>	Chief Internal Auditor	April 2014
<p>Has the Chief Audit Executive agreed the scope of the external assessment with the external assessor or assessment team?</p>	N/A	<p>The requirement for an external assessment (to be undertaken every 5 years) is new.</p> <p>The Public Sector Internal Audit Standards took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.</p>	<p>The Chief Internal Auditor will develop a formal terms of engagement for the external assessor or assessment team</p>	Chief Internal Auditor	To be determined in discussion with Senior Management and the Board following the paper to be presented in April 2014

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
<p>Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process?</p> <p>Competence can be determined in the following ways:</p> <ul style="list-style-type: none"> • experience gained in organisations of similar size • complexity • sector (ie the public sector) • industry (ie local government), and • technical experience. <p>Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.</p>	N/A	<p>The requirement for an external assessment (to be undertaken every 5 years) is new.</p> <p>The Public Sector Internal Audit Standards took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.</p>	<p>The Chief Internal Auditor will undertake due diligence checks on prospective external assessors / assessment teams to ensure credibility, competence and independence.</p>	Chief Internal Auditor	To be determined in discussion with Senior Management and the Board following the paper to be presented in April 2014
<p>How has the Chief Audit Executive used his or her professional judgement to decide whether the assessor or assessment team demonstrates sufficient competence to carry out the external assessment?</p>	N/A	<p>The requirement for an external assessment (to be undertaken every 5 years) is new.</p> <p>The Public Sector Internal Audit Standards took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.</p>	<p>The Chief Internal Auditor will undertake due diligence checks on prospective external assessors / assessment teams to ensure credibility, competence and independence.</p>	Chief Internal Auditor	To be determined in discussion with Senior Management and the Board following the paper to be presented in April 2014

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
<p>Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs.</p>	N/A	<p>The requirement for an external assessment (to be undertaken every 5 years) is new.</p> <p>The Public Sector Internal Audit Standards took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.</p>	<p>The Chief Internal Auditor will undertake due diligence checks on prospective external assessors / assessment teams to ensure credibility, competence and independence.</p>	Chief Internal Auditor	<p>To be determined in discussion with Senior Management and the Board following the paper to be presented in April 2014</p>
<p>4.5 - Communicating Results</p>					
<p>Where any non-conformance with the Public Sector Internal Audit Standards has impacted on a specific engagement, do the communication of the results disclose the following:</p>					
<p>a) The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved?</p>	N/A	<p>Occasion has not arisen whereby non-conformance has impacted on an engagement.</p>	-	-	-
<p>b) The reason(s) for non-conformance?</p>	N/A	<p>Occasion has not arisen whereby non-conformance has impacted on an engagement.</p>	-	-	-

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
c) The impact of non-conformance on the engagement and the engagement results?	N/A	Occasion has not arisen whereby non-conformance has impacted on an engagement.	-	-	-
Does the annual report incorporate the following:					
g) A statement on conformance with the Public Sector Internal Audit Standards?	N/A	The Public Sector Internal Audit Standards were introduced in April 2013.	A statement of conformance with the Public Sector Internal Audit Standards will be included within the 2013/14 Annual Audit Report and Opinion.	Chief Internal Auditor	June 2014
h) The results of the Quality Assurance and Improvement Plan?	N/A	The Public Sector Internal Audit Standards were introduced in April 2013.	Results of the Quality Assurance and Improvement Plan will be included within the 2013/14 Annual Audit Report and Opinion.	Chief Internal Auditor	June 2014
i) Progress against any improvement plans resulting from the Quality Assurance and Improvement Plan?	N/A	The Public Sector Internal Audit Standards were introduced in April 2013.	Progress against improvement plans will be included within the 2013/14 Annual Audit Report and Opinion.	Chief Internal Auditor	June 2014

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