Internal Audit Manual

2022/23

Foreword

The purpose of this manual is to provide audit staff with a source of reference for general audit procedures and methodology. We, as professional Internal Auditors need to conform to the *Code IIA of Ethics*, and the *UK Public Sector Internal Audit Standards* (PSIAS).

The service maintains other key documents, for example the Audit Charter, accessible on the IA website.

All auditors must also comply with these processes that are summarised by the PSIAS *Core Principles* as set out below:

- Demonstrates integrity
- Demonstrates competence and due professional care
- Independence – objective / free from undue influence
- Aligns with the strategies, objectives, and risks of the organisation
- Appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Insightful, proactive, and future-focused
- Promotes organisational improvement.

The Manual has been drafted to also provide guidance on how these processes are progressed through our audit software, Sword Audit Manager (SAM).

I fully appreciate that some circumstances will not ‘fit’ the processes scripted within this Manual. Professional competence and proactivity within the above principles support my confidence that audit staff will know when the situation requires variation to these processes and where to obtain the necessary Chief Internal Auditor (or in their absence the Audit Manager) approval.

I welcome any suggestions for improvements to this manual

We have highlighted the key actions audit staff should adopt within the document to aide its use as an operational manual.

Jacinta Fru BA (Hons) FCCA
Chief Internal Auditor

Milton Keynes City Council

1 Audit Committee

The Audit Committee is responsible for overseeing the Council's Governance procedures and considering internal and external audit reports.

The Audit Committee's Terms of Reference can be found on CMIS (Committee Management Information System) on the Council's website. The service promotes the adoption of the CIPFA best practice Terms of Reference whilst respecting the Council's right to determine this for themselves.

The Audit Committee has a clear role in oversight of Internal Audit. It approves the Charter, Audit Plan, receives updates, monitors key performance indicators and considers high profile matters.

Internal Audit has direct access to the Audit Committee Chair should matters of a serious nature arise. During the year, the Chief Internal Auditor (and/or Audit Manager) will meet with the Chairman of the Audit Committee on an informal basis.

The Chief Internal Auditor (and/or Audit Manager) presents the IA team's progress report to the Audit Committee on a quarterly basis (see Section 3 – Performance Measures).

Auditors should be aware of this KEY stakeholder and their role to ensure every assignment enables the Audit Committee to properly discharge its functions.

OUTCOMES/ASSURANCE:
The IA service provides the Audit Committee (and senior management) with the following outcomes/assurances:

- **Internal controls -** Ensure the integrity and reliability of the Council's financial and operating information, quality of performance management, safeguarding of assets, and the economic, effective and efficient use of resources; and compliance with external regulations, legislation, internal policies and procedures.
- **Risk Management** – Assurances that key risks for the Council's objectives are being managed.
- **Governance** – Audit reports contribute to improvements in control and governance processes

2 Internal Audit Charter

The Charter is a formal document that defines our vision, purpose and how the service will be provided. It is reviewed and approved annually by the Corporate Management Team and Audit Committee.

The 'Internal Audit Charter' is available on the IA website or via the Chief internal Auditor

Each member of the IA team is expected to be aware of the Charter and adhere to it.

3 Performance Measures (and Sword Audit Manager)

Performance measures[1] are monitored by the Chief Internal Auditor, reviewed at IA team meetings and reported quarterly to the S151 Officer and Audit Committee. This data is derived from our audit software, Sword Audit Manager (SAM) and it is essential that information is kept up to date.

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1 PSIAS ref 2000 Managing the Internal Audit Activity

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Auditors must ensure time recording and audit progress is kept up to date and properly recorded into SAM. Whilst measures are reported monthly auditors should update this data at least weekly.

Performance Measures include:

Proportion of Plan completed and work in progress (100% target to Draft by 31/3)	Proportion of agreed Actions implemented (100% target of Essential Recs implemented)	Weak/Limited Opinion n reports (detail of each to be reported)
Productive/direct time as a % of total time (90% Target)	Proportion of Weak/Limited Opinion reports to improve to At least' satisfactory' at follow up (100% target)	Customer satisfaction levels (90% return rate target)

The service also needs to manage the progress and quality of individual audit assignments.

Auditors need to ensure the Chief Internal Audit/Audit Manager has:
- approved the Terms of Reference
- is made aware of any significant finding identified during the audit
- has quality assured the work before issuing the report

The completion of every audit is monitored against:

End to end time	Days taken to completed (compared to planned time)	Time between key audit stages e.g. draft issue to final report issue	Customer satisfaction

4 Annual Audit Plan

Whilst an Annual Audit Plan is developed (and approved) it is an indicative and flexible plan of work to reflect the assessed risks and key systems across the Council[2].

The plan is developed in consultation with key internal and external stakeholders with the aim of a 1st draft plan being submitted to Corporate Management Team in January for comment / initial approval and then Audit Committee approval before 31st March each year.

The development of the plan includes:
- Risk assessment of areas and thus their comparative risks
- Timing of the audits with a commencement QUARTER proposed to align with seasonal / other service pressures

2 PSIAS ref 21010 Planning

The risk assessment methodology determines priorities for audit coverage based as far as possible on management's view of risk in conjunction with other internal sources such as the corporate risk register, audit risk scores etc. External assurances sources are also used including:

- External audit reports (both local and national)
- Local Government Ombudsman reports (individual and annual)
- Office of the Surveillance Commissioner
- Information Commissioner
- Professional best practice e.g. IIA, CIPFA etc
- National Anti-Fraud Network

The Plan is approved annually by the Corporate Leadership Team and Audit Committee (preferably before the start of each financial year).

The Plan will change throughout the year as risks are re-assessed and new issues emerge.

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Auditors should highlight any emerging risk they become aware of to include within the Audit Plan

Audits are allocated regularly by the Chief Internal Auditor/ Audit Manager.

Auditors are responsible for ensuring they engage in the allocation of audits to be conversant with those audits they will be responsible for in the next 2-3 months.
The Audit Manager will allocate new audits to auditors; auditors must manage their workloads and request additional audits in advance to avoid any dips in productivity.
Auditors are responsible for discussing the time allocation for each assignment with their manager / supervisor and completing the work within the time allocated. If you feel that the time allocated is not sufficient for the service under review, please discuss this with the Chief Internal Auditor/ Audit Manager.
Auditors must flag up any audit likely to exceed its allocated days at the earliest opportunity, at the same time proposing any opportunities to mitigate such overspend.
Target completion stages are managed by the monitoring of progress target and actual dates on SAM, therefore it is important to maintain these on an ongoing basis.

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5 Audit Methodology

Internal Audits role and authorisation is derived from the Accounts and Audit Regulations, Local Government Act and the Public Sector Internal Audit Standards (PSIAS). The Council also authorises the services' unfettered access to be able to define and perform its duties via an approved Charter, Annual Plan, Financial Regulations, etc. This authorisation allows Internal Audit full, free and unrestricted access to all functions, records, assets, property and personnel necessary for the proper discharge of its responsibilities. No operational area or levels within the organisation are excluded from Internal Audit review.

Auditors should approach any reluctance to provide documentation or information tactfully. It is likely that service staff's reluctance will be because the information is sensitive / confidential. If following a tactful explanation of the reasons and basis for requesting that information it is still refused the Auditor should seek to discuss the matter with service management and if that fails, highlight the issue promptly to Audit Management.

If at any time matters are uncovered or brought to your attention that are of significance to management, or if you believe that the resulting exposure is serious, Audit management should be informed promptly.

The process of performing an audit has four key stages. These are collectively referred to as the Audit Cycle as shown below:

5.1 Planning[3]

Audits will be allocated by the Chief Internal Auditor/ Audit Manager from the Annual Plan. Assigning auditors to an audit within SAM enables time to be coded to that audit within SAM.

In this phase, the system or operation to be audited is reviewed and documented (i.e. flow document identifying controls and any gaps/risks), risks and controls identified, and a preliminary evaluation of the adequacy of these controls performed.

The Terms of Reference (ToR) document is an important stage as it sets out (for client agreement) what we will audit. The ToR is scoped and an audit programme is developed to be agreed with the Chief Internal Auditor/ Audit Manager and then the Client.

PSIAS compliance requires a consistent format for the ToR that ensures key considerations are always assessed (for example risk of Fraud)[4]. A Word ToR template has been approved and is saved in the ToR SharePoint folder (which also is used as a library of all past ToRs).

The agreed ToR should be saved into the SharePoint 'Audit Management docs' folder. Evidence of the Chief Internal Auditor (or Audit Manager) and client's agreement should be saved in the 'Correspondence' folder.

Planning Steps:

1.01	Input '**Activity Planned**' date on SAM, if not already inserted
1.02	Complete the Assignment Declaration of Interest form in SharePoint and send to manager for counter signature for every audit[5]. **Note:** If during the audit you become aware that there is a conflict of interests, you must complete, sign, resubmit and file the form again.
1.03	Contact Auditee (Head of Service) and arrange commencement meeting
1.04	Research (consider key risks - review GRACE, recent legislation, service changes, previous audit file including process flow, etc.) including whether a previous audit folder already contains a past ToR that can be used / updated.
1.05	Create the draft ToR using the Word template for Chief Internal Auditor/Audit Manager and Client agreement
1.06	Commencement Meeting (to agree ToR with Client)
1.07	Finalise and issue Terms of Reference - obtain management approval prior to this).

3 PSIAS Ref 2200 Engagement Planning
4 PSIAS ref 2210 Engagement Objectives and 2220 Engagement Scope
5 PSIAS ref Impairment or Independence to Objectivity

1.08	Complete target ('planed') completion dates for each of the key stages of the audit in the SAM progress control screen (ToR refers to key stages) Note 'Revised' dates should not normally be inserted

Planning Outputs:

A	Auditor to ensure fully completed and countersigned Declaration of Interests form is received and is uploaded on Sharepoint (Correspondance folder**)**
B	Research documents/notes (saved in SharePoint Background Docs folder)
C	Commencement Meeting notes (saved in SharePoint Correspondences folder)
D	Agreed ToR (saved in Sharepoint Audit Management docs folder) and upload to SAM
E	Chief Internal Auditor/Audit Manager and clients agreement of ToR (filed in Sharepoint Correspondences folder)
F	Email ToR to auditee (saved in SharePoint Correspondences folder)
G	Input '**ToR Issued**' date on SAM
H	Process Flow including walk through test (saved in SharePoint System Notes folder)
I	Identify objectives, risks and controls and develop a draft test programme/control matrices[6]

5.2 Fieldwork

During the fieldwork phase, the test programme is followed and assessments made based upon the results of further investigation and testing.

Auditors should only contact Directors at the start (copied into email issuing Terms of Reference) and conclusion of an audit (copied into email issuing report). It is not appropriate to contact directors regarding operational matters. If you think contact is necessary during your audit please clear this with the Audit Manager beforehand.

Testing methodology for audit testing is to be determined by the auditor undertaking the audit (depending on size and value of transactions.

Fieldwork Steps:

2.01	Opening Meetings (if required – to obtain better understanding of systems and controls in place)
2.02	Create a Risk Matrix working paper for each audit objective within SAM. Populate objectives, risks, controls, tests fields. This forms the test programme.
2.03	Review of test programme (by Chief Internal Auditor/ Audit Manager / Principal Auditor)

6 PSIAS ref 2240 Engagement Work Programme

Fieldwork Outputs:

2.04	Commence testing and input SAM progress control date (‘**Fieldwork Started**’ date)
2.05	On completion of fieldwork, input SAM progress control date (‘**Fieldwork Completed**’ date) and ensure all attachments to support working papers have been attached on SAM and cross referenced to working papers.
2.06	Hold ‘Clearance/Review meeting’ if required with auditee. This is to discuss findings only.
2.07	Use SAM report screen to create report. Generate Word Document (see below 5.3.2) Note: If a previous audit report has been issued in the last 3 years, the SAM report template will need to be amended by adding the relevant section that shows follow up information/progress of the Management Action Plan (please refer to the ‘Template Audit Report May 22’ in the Standard Working Documents, Reports folder).
2.08	Working papers and draft audit report reviewed by Audit Manager[7] using SAM review function or Review Sheet on Sharepoint
2.09	Input ‘**Manager Review**’ progress date and clear all review points.
2.10	Input SAM progress control date (‘**Clearance/Review Meeting Held**’)
2.11	Email draft audit report to Chief Internal Auditor for review (there is no provision in progress dates for this stage to be input).
2.13	Discuss any report amendments if necessary
2.14	Issue draft report to auditee
2.15	Input SAM ‘**Final Draft Report issued**’ date on SAM

A	Meeting notes
B	Completed control matrix and working paper reviews (Audit Manager)
C	Cross referenced working papers (incl tests spreadsheet)
D	SAM generated report
E	Clearance/Review meeting notes (if undertaken)
E	Fully reviewed audit report (by both Audit Manager and Chief Internal Auditor)
F	Email issuing draft report to auditees (file in Correspondence folder)

Further Guidance:

This section will include the bulk of the working papers and will be prepared while the test programme is being executed. The contents of this section will vary greatly from one audit to another; however, in general terms it should record the full detailed results of the audit.

[7] PSIAS ref 2340 Engagement Supervision

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Auditors must ensure this aspect of the work is fully documented and saved. This is a KEY stage of work to demonstrate PSAIS compliance[8] and specifically the important principle of professional competency and quality assurance processes. SAM has been designed to save all working papers within each audit / assignment and it is vital (to demonstrate PSIAS required quality assurance and consistency) that this used fully.

It is also ESSENTIAL that Auditors communicate regularly and effectively with the auditee to minimise the possibility of "surprises" at the end of the audit. This may be done informally (for example by emails, discussions) or via formal meetings but must be evidenced and proactive.

5.3 Outcome Reporting

5.3.1 Final Audit Reports

Internal Audit is, by its nature a logical, evidential profession which requires clear and concise reports that contain evidenced and objective findings to support an independent audit opinion[9]. The Audit Opinion within every report must provide service management with a view regarding the adequacy of assurance in relation to:

- Control systems
- Compliance
- Organisational Impact

To achieve the above objective audits must consider (and maintain the evidence that supports) an opinion on the:

- adherence to external regulations, legislation, internal policies and procedures, for each area audited / examined;
- financial and operating information, quality of performance management, safeguarding of assets, and the economic, effective and efficient use of resources;
- the effective identification and management of significant risks.

Whilst the service has a standard, consistent report template to be used across all services, that provides the basis to demonstrate PSIAS compliance, it can be revised to meet client specific needs and to better present Audit findings.

It is not for auditees to change audit reports unless there are factual inaccuracies.
If auditees are not in agreement with audit recommendations this will need to be made clear in the Management Comments section of the audit report, including their acceptance of the risk and any alternative action. No target date or follow up will be needed except where an alternative action is proposed.

Auditors should ensure they liaise closely with Chief Internal Auditor/ Audit Manager on the best report format to best present audit findings.
Refer to 'Final Reports Process' document for further guidance.

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8 PSIAs ref 2300 Performing the Engagement
9 PSIAs ref 2400 Communicating Results

Audit Report Steps:

3.01	Agree any changes in report due to factual inaccuracies. Consider reporting changes back to the Audit Manager and/or Chief Internal Auditor unless these are minor. Where necessary, update SAM ensuring all actions (recommendations) are accurately entered.
3.02	Issue audit report to auditees (as per Terms of Reference) and send a copy to Audit Assistant to request the customer satisfaction survey is issued (please inform her who this survey should be sent to).
3.03	Input SAM progress date (‘**Final Report Issued**’ date)
3.04	Ensure the ‘actions’ accurately reflect the recommendations in your report.
3.05	Ensure ‘Final issued’ dates are entered in the ‘Progress’ tab on SAM for each action (this enables management reporting on the implementation of actions) Ensure management actions on SAM are updated after issue of final report
3.06	Copy of Final Report to be placed in Reports folder within Sharepoint and copy to be uploaded to SAM (Attachments tab, found alongside Progress Control tab).
3.07	Email issuing report to be attached to SAM audit activity (‘Attachments’ tab alongside ‘Progress’ dates tab) and to be filed in Correspondence tab on Sharepoint.
3.08	Audit Assistant enters ‘Survey Issued’ date on SAM
3.09	Audit Assistant enters survey answer(s) on spreadsheet for performance reporting purposes and informs auditor of response(s) to survey.

Audit Report Outcomes:

A	Final reports copied into relevant folders
B	Customer Survey issued (Audit Assistant will file and record for performance management purposes)
C	Completed Customer Satisfaction Survey.

Timelines:

Report Stage	Timescale
Draft findings – sent to meeting attendees	2 days prior to meeting
Draft report – sent to auditees (management) to gain final agreement	2 days post exit meeting
Final draft report – for review/comment by auditees	5 working days
Final report (taking any further final comments into account)	2 working days

Further Guidance:

Audit Reports:

Timing: Audit reports should be issued at the time stated within the Terms of Reference. Any delays should be reported promptly to the Chief Internal Auditor/ Audit Manager.

Audit Report Opinion: There are no hard and fast rules for determining the Audit Report Opinion, however, the risk rating of the audit findings will naturally help determine the final outcome e.g. the presence of one or two 'essential' risks may be sufficient to grade an audit 'Limited'.

Recipients: Please see Final Reports Process guide.

Target Implementation Dates: Generally speaking these should be within 6 months of the report issued date but more strategic actions may take longer.

'Limited' and 'Weak' opinions: Please notify Chief Internal Auditor/Audit Manager at draft stage so they can feed concerns upwards. Directors should always be copied into the email issuing the draft report.

Management Reporting: The status of each report is summarised in reports to management and Audit Committee. Report findings are not included unless the opinion is Limited in which case the essential/important recs are summarised in the Progress update to management and Audit Committee.

Audit Reports are NOT exempt under Freedom of Information. Discussions must take place in a timely manner regarding wording that should be redacted (the service must be involved in this discussion).

5.4 Follow up

Follow ups are an important step that provides assurance to management that the agreed actions have been completed and thus the control environment has been improved as agreed[10].

It is essential all recommendations / actions are followed up for implementation and reported. The Audit Service is required to monitor (via a quarterly Action Tracker process) audit recommendations and report that information to senior management and the Audit Committee.

It is the responsibility of the Chief Internal Auditor/ Audit Manager to ensure all audits are followed up as necessary usually within 3-6 months after the issue of the final report. The lead auditor for each assignment must ensure that follow up work has been diarised within the 'tracker' process agreed.

Evidence must be obtained for 'essential' actions that are reported by auditees as implemented.
For 'important' actions this is preferable.
There is no need to request evidence of 'standard' actions. However, auditors should request progress information when following up other actions.

Follow-up Steps:

4.01	*Auditor reviews SAM action target date report for actions that are approaching/past their target date.*
4.02	*For Essential (E) and Important (I) recommendations, follow-up with the responsible officer via E-mail (and request information on Standard actions).* *Paste the recommendation(s) into an E-mail and request:*

10 PSIAS ref 2500 Monitoring Progress

	• Supporting evidence if the E/I recommendation has been completed (although preferable, it is not always necessary to obtain evidence for I recommendations) • A reason why the action hasn't been completed and a revised action date. When received file on Sharepoint.
4.03	Enter 'Progress' dates ('Action Completed') on SAM for each Action. Or revise target dates ('Action Summary' – 'Revised Target Date') where necessary.
4.04	Where a response is not received by the service there is no need to chase responses as the quarterly tracker will ensure responses are received. However, it will be necessary (once the tracker responses are received) to obtain evidence as per 4.02 above.
4.05	Update Risk Assessment

Follow-up Outcomes:

The Chief Internal Auditor/ Audit Manager will monitor 'not implemented' actions on an ongoing basis. However, where the Auditor feels that progress is not as expected, or that the risks warrant it, the Chief Internal Auditor/ Audit Manager should be advised.
Unacceptable risks such as those risks accepted by management but the auditor feels this a threat to the service/organisation must be reported to the Chief Internal Auditor/ Audit Manager who will escalate the issue(s).[11]

Other Audit Work

Internal Audit on occasion may deliver other work for its clients. Compliant with PSIAS this section outlines how the independence of IA is protected.

Grant Certification

Government Grants may require Internal Audit certification that monies have been spent on approved purposes and grant conditions fully met. A schedule of known grants is maintained and diarised within the Annual Audit Plan.

As with audits, this area of work will be allocated at the appropriate times by Chief Internal Auditor/Audit Manager.

Where Internal Audit is advised of a grant received, the grant manager will be advised of the need to ensure that relevant proof of spend and adherence to grant conditions is collated ready for audit. Internal Audit will contact the grant manager to obtain the evidence, with the aim of completing the audit in advance of the deadlines per the grant conditions.

Upon completion a certification or declaration letter will be prepared by the auditor, a briefing note or audit report and key supporting evidence shall be provided to the Audit Manager for quality assurance and to the Chief Internal Auditor for signature.

[11] PSIAS ref 2600 Communicating the Acceptance of Risks

The Chief Internal Auditor shall then ensure the Chief Executive is briefed and obtain their signature where needed

Operational / Adhoc roles:
This will rarely be ongoing service delivery but where such work is delivered via IA

- The Chief Internal Auditor! Audit Manager shall approve such work if they are assured it has no impact on the completion of the approved Audit Plan. The Audit Manager shall advise the Chief Internal Auditor of all such work approved.
- Chief Internal Auditor shall be the only person authorised to agree such work if it is considered it may impact on completion of approved Audit Plan.
- Any audit of that area will require auditing by a sufficiently independent person[12].

IA may undertake other, non-Audit assignments such as participation in (but not a member of) Project teams eg IT systems.

Currently two operational matters are delivered via Internal Audit

(1) Risk Management
This service facilitates client's management of risk. When audited the potential implications to IA independence are discussed with clients and an external audit of the controls offered. Where the Client wishes the audit to be delivered via IA it shall be audited by an independent auditor, under the supervision of the Chief Internal Auditor.

(2) Counter Fraud
Whilst this specialised expertise falls within the proper, professional scope of Internal Audit it is recognised it could in rare cases, represent a conflict of interest to IA independence. This is therefore recognised and managed in agreement with the S151 Officer.

Consultancy:
Before undertaking work you will need to agree:

- Chief Internal Auditor approval including detailed Scope of Assignment
- Timing & Key Deliverables
- How potential independence issues will be managed ! highlighted

The scope of such assignments must document any potential implications to the IA services' independence. Consultancy assignments must be created as an Audit within SAM and managed consistent with those PSIAS processes structured through SAM.

It is essential that the outcome (ie a formal report, advisory note or other) and its circulation is agreed in advance with the senior client.

Auditors must ensure they have due regard to any conflict of interest (either personal or for the service) and highlight these at the earliest opportunity.

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[12] PSIAS ref 1100 Independence and Objectivity

Non Fraud Investigations

- Periodically the Chief Internal Auditor will receive referrals for non-fraud related investigations from management, Councillors or via the Whistle-Blowing Policy.

- Auditors will draft the agreed Assessment Terms of Reference, which shall then be submitted to the Chief Internal Auditor for approval, including whether the referral warrants an internal investigation and if it does whether that shall be progressed by Internal Audit or Counter-Fraud staff or referred to another appropriate internal / external party.

- The investigation should be set up as an activity on SAM and time charged to it in the normal way. Draft/Final Reports and working papers can be attached to the activity within SAM.

Fraud Investigations:

The Internal Audit Service maintains a professional counter-fraud service and operates within the Anti-Fraud and Corruption Policy (annual reviewed required).

- The SAM system will be used as the fraud case management system. Every investigation will be created as a specific job within the relevant Client (business unit) and files will be limited to Counter-Fraud staff access and Chief Internal Auditor.

Auditors must ensure they have due regard to the potential for fraud within every audit including designing tests that address that risk within systems (e.g. duplicate payment data matching in creditors).

Auditors must highlight any suspected fraud promptly to the Chief Internal Auditor.

Periodic reports on caseloads and key cases are reported to Management Team and Audit Committee.

Cases are usually investigated by the Fraud Officer to ensure that appropriate investigative action is taken AND control implications fully understood.

Auditors supporting / undertaking any investigative work must have due regard to their audit independence at all times.

Counter-Fraud itself is not audited on the basis that its work is subject to

- Managerial oversight on every case
- HR oversight on all cases involving staff
- Senior Service Management oversight on key cases
- Corporate Management Team oversight on key cases
- Statutory Officer oversight on key cases
- Audit Committee oversight on both caseloads *and* key cases
- External scrutiny by relevant regulatory bodies eg courts, tribunals, Police etc

As with Risk Management the choices to audit Counter-Fraud internally or externally is highlighted to the S151 Officer every year as part of the planning service