

Appendix 5



# Internal Audit

## Reporting and Escalation Policy

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## Orbis IA – Reporting and Escalation Policy

### 1. Introduction

- 1.1. The Public Sector Internal Audit Standards (PSIAS) require that internal audit activity must be free from interference in determining the scope of internal audit, performing work and communicating results. Timely and appropriate management responses to internal audit reports enable the Authority to demonstrate that it maintains high standards of internal control and governance in line with control objectives.
- 1.2. This policy will apply to the 3 Orbis Partner Authorities (Surrey County Council, East Sussex County Council and Brighton & Hove City Council). For ease of reference we have used the generic term “Audit Committee” throughout the document, which at the current time refers to the following committee:

Authority	Audit Committee
Surrey County Council	Audit & Governance Committee
East Sussex County Council	Audit, Best Value and Community Services Scrutiny Committee
Brighton & Hove City Council	Audit & Standards Committee

- 1.3. Each Audit Committee will be asked to approve this policy in order to ensure that any concerns are remedied in an appropriate and timely manner.
- 1.4. The policy is designed to provide clarity to all relevant parties over the respective responsibilities and expectations of internal audit.

### 2. Reporting

- 2.1. With the exception of investigations into alleged irregularities (which are subject to separate arrangements not covered in this policy), the following reporting and escalation arrangements apply to all audit reviews undertaken by internal audit.

### 3. Draft Report

- 3.1. Following completion of an internal audit, the auditor will produce a draft report, which is issued to the responsible manager (the client). The client will be asked to comment on the factual accuracy of the report.
- 3.2. In this context ‘factually accurate’ means that the auditor’s report (findings and risks) are based on a correct interpretation of the systems or circumstances pertaining to the review.

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- 3.3. Where appropriate, an exit meeting is held with the client and other officers. It is during this meeting that key points arising from the audit and factual amendments are discussed and actions agreed. Where possible service actions addressing findings should be captured for inclusion in the report.
- 3.4. The agreement of actions and the accuracy of the report are, in many instances, agreed by email.

### **4. Escalation Process**

- 4.1. Upon receipt of the comments on the draft report, the auditor will consider if the actions therein are appropriate. If the auditor is satisfied that all factual points have been addressed; that the service has no outstanding concerns with the report, and that the agreed actions sufficiently addresses all the findings raised in the audit report, then the final report can be issued.
- 4.2. If a response to the draft report is not returned in a timely manner, or in the auditor's opinion does not adequately address the issues raised, the Chief Internal Auditor or Audit Manager will discuss their concerns with the Head of Service. If that discussion does not result in agreed actions acceptable to internal audit, the issue will be referred to the relevant Director for a decision.
- 4.3. The Director's decision will be either to agree acceptable action on behalf of the Head of Service, which must then be implemented within the agreed timescale, or to accept the position and acknowledge that the Director accepts the risk. Risks tolerated in this manner should be considered for inclusion on the service risk register.
- 4.4. If in the opinion of the Chief Internal Auditor the Director's decision exposes the Council to an unacceptable level of risk, the matter will be referred first to the Section 151 Office and/or Chief Executive and then to the relevant Audit Committee.
- 4.5. Depending upon the time taken to agree a final report, the Chief Internal Auditor reserves the right to issue the final report without formal agreement and to report the findings and position to the relevant Audit Committee.

### **5. Chief Internal Auditor**

- 5.1. All auditors will ensure the Chief Internal Auditor is provided with a copy of the final report for any audit with an opinion of Partial or Minimal Assurance. Any reports that are considered to be contentious should also be provided to the Chief Internal Auditor.

### **6. Report Distribution List**

- 6.1. The final report should list the officers for whom the report has been prepared. This includes the client, the Head of Service and other key officers as set out in the agreed Terms of Reference.

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- 6.2. The audit report is written for the officers named in the distribution list. The Chief Internal Auditor should be consulted before sharing the report any further.

### **7. Ownership of the Management Action Plan**

- 7.1. Whilst agreed actions within the audit report may rest with one or more officers, the Head of Service has overall accountability for responding to the draft report in a timely manner and is required to inform internal audit if timescales are likely to be missed. In assigning their name to the report, Heads of Service are confirming that they accept responsibility for completion of the actions therein.

### **8. Reporting to Audit Committee**

- 8.1. The Chief Internal Auditor will report on all audits completed since the previous meeting to the authority's Audit Committee, summarising the reason for the audit, the key findings, the risks resulting from those findings and the agreed actions.
- 8.2. The Audit Committee then considers whether further information or assurance is required.
- 8.3. Should the Audit Committee require an update on completion of actions for a particular audit, the relevant Head of Service is responsible for informing the Chief Internal Auditor of what actions have been completed or providing an explanation for any delay in, or change to, the action being taken.
- 8.4. A Head of Service may be required to attend the Audit Committee to provide further information or assurance in relation to completed audit activity and to answer any questions on the reasons for the non-completion of agreed action or delays in implementation.

### **9. Follow up reviews**

- 9.1. A formal follow-up review of the progress made in implementing actions agreed within the report may be programmed into the annual Internal Audit Plan at a time the Chief Internal Auditor considers appropriate. A formal follow-up review is typically carried out for audits that have attracted an audit opinion of "Minimal Assurance" and in some instances where a "Partial Assurance" opinion is provided.
- 9.2. Upon completion of the follow-up review the auditor will report to the responsible officer drawing attention to any actions that have not been completed by the agreed date. A copy of the follow-up report will be sent to the full distribution list.
- 9.3. In addition, the Chief Internal Auditor will provide a regular report to the Audit Committee on progress in implementing actions agreed for audits completed.

**10. Audit Opinions and Definitions**

10.1. The internal audit reports provide the following audit opinions :

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
<b>Minimal Assurance</b>	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

**11. Limitations and Management Responsibilities**

11.1. The internal audit report explains the limitations placed upon our work and outline the responsibilities of Management:

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management’s responsibilities for the application of sound business practices. We emphasise that it is management’s responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management’s responsibilities for the design and operation of these systems.