

An Overview of Internal Audit

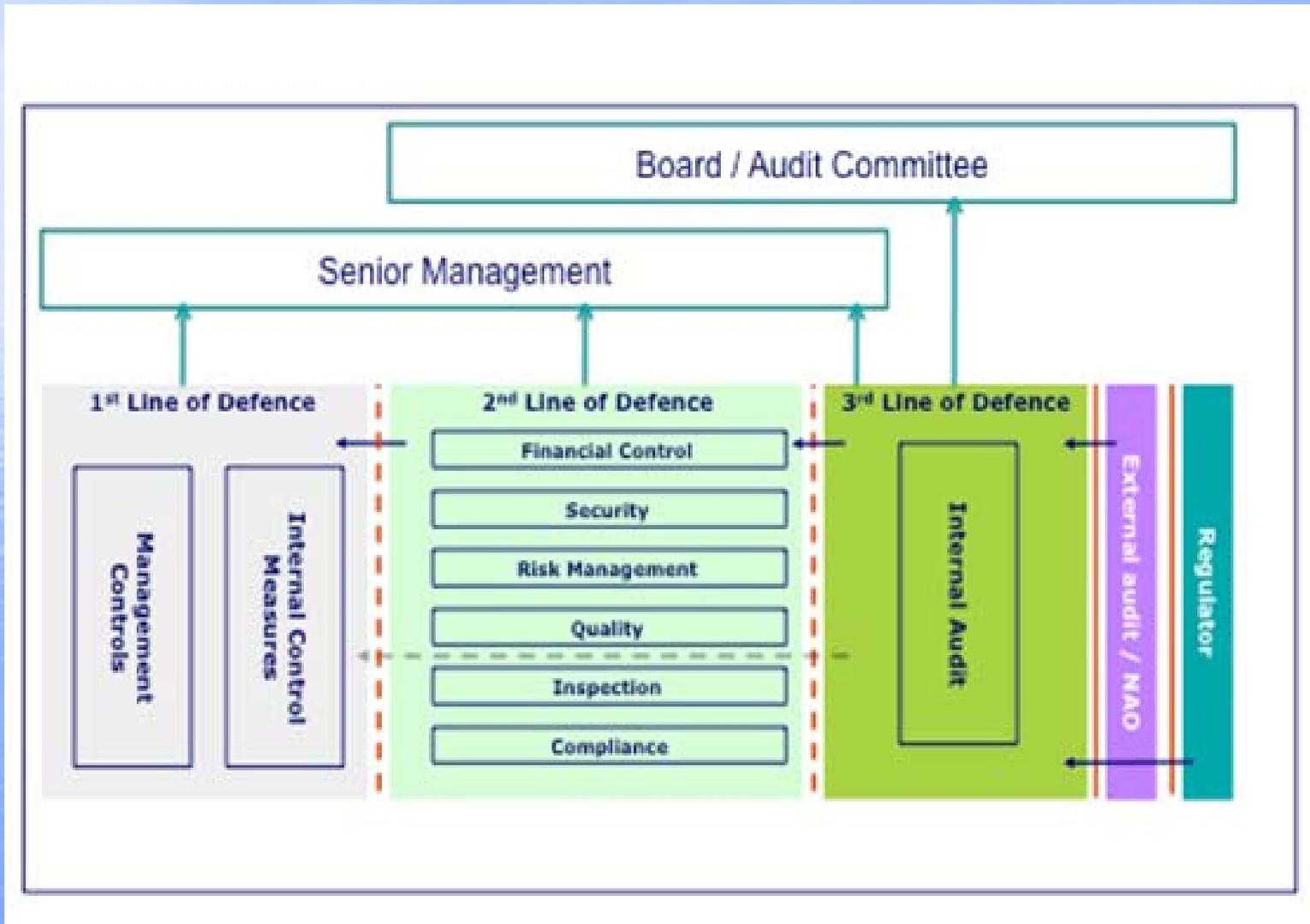
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What is Internal Audit?

- *“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s 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”*

The Three Lines of Defence Model



Internal Audit Strategy

- 2013-16 Strategy agreed July 2013
- Purpose, Outputs and Performance
- Key responsibilities
- Links to the risk profile of the Company
- Resources

Work Programme

- Risk based plan
- Internal audit knowledge
- Input from directors and managers
- Horizon scanning
- Approved by Audit Committee

Performance

- Progress against the plan
- Actual hours against planned hours
- Number of audit assignments completed against plan
- Number of audit recommendations implemented
- Audits completed within agreed time
- Customer satisfaction levels

Priority of Recommendations

- **HIGH** - These are fundamental weaknesses, which represent a major risk to the organisation, service or establishment and immediate remedial action is imperative
- **MEDIUM** - These are weaknesses, which represent a considerable risk to the organisation, service or establishment and urgent remedial action is necessary
- **BEST PRACTICE** - These issues merit attention and their implementation will enhance the control environment or promote value for money

Priority of Recommendations

HIGH

- Leads to a failure to achieve organisational or service objectives
- Breach of legal requirement
- Material error
- Major breach of organisation's policies or procedures
- Potential for major public embarrassment

Priority of Recommendations

MEDIUM

- Significant or frequent error rate
- Lesser breach of the organisation's policies or procedures
- Significant potential to improve value for money

Priority of Recommendations

BEST PRACTICE

- Minor but noteworthy errors
- Lesser value for money issue

Reporting Opinions

- **OPERATING WELL** - Used where the system is effective and no recommendations or only a few best practice recommendations have been raised. The vast majority of recommendations from the previous audit need also to have been implemented.
- **SATISFACTORY** - Used where the system works but there are a number of medium priority recommendations or where issues have not been addressed from the previous audit.
- **SIGNIFICANT WEAKNESSES** - Used where the system is flawed so there is one or more high priority or a large number of medium priority recommendations. Also where very little or no action has been taken since the previous audit.

The Process

- Assignment Brief Issued
- Fieldwork Undertaken
- Exit Meeting
- Working papers and draft report produced
- Quality review
- Draft report issued
- Discussion/Negotiation
- Final report issued

Action Plans for Management

ACTION PLAN: **Audit of**

Ref	Finding	Risk	Recommendation	Priority	Management Response
Objective:					
01	Description of what was tested and what weaknesses were identified	The risk to the Company if the identified weakness is not addressed	What action should be taken to improve and strengthen controls and to mitigate the risk	High or Medium	Responsible Officer: Implementation Date: Comments:

Statement of Internal Control

Annual review of the effectiveness of the internal control systems covering:

- Governance and Risk Management
- Performance Management
- Financial Management
- Internal Audit
- External Audit

Special Investigations

- Counter fraud and corruption investigations
- Financial irregularities
- Police liaison

Audit Committee's Terms of Reference

Approval required by the Board following review by the Committee:

- To consider draft audited accounts and make recommendations to the Board.
- To (at least annually) report to the Board on the adequacy the Company's financial and internal control arrangements and recommendations for change.
- To make recommendations to the Board concerning the appointment of the Company's internal and external auditors (subject to ratification at the AGM)

Audit Committee's Terms of Reference

Matters delegated to the committee for decision:

- To review the work programmes and performance of the Company's internal and external auditors.
- To consider the external auditor's management letter and draft a response for the Board to approve.
- To oversee, the Company's financial and internal control arrangements, including internal audit, risk management, health and safety, delegations and financial regulations.
- Review and monitor management's response to findings and recommendations of the internal auditor.

Effective Audit Committee

- Self-Assess effectiveness against best practice
- Ensure you meet the terms of reference
- Ask for assurance where you need to
- Knowledge of wider organisation and key issues
- Horizon scanning
- Other assurance providers – The first and second lines of defence

Any Questions?

