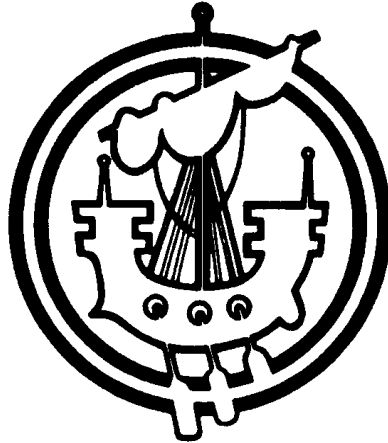


# INTERNAL AUDIT



## Manual

Effective from 1<sup>st</sup> April 2024

# COMHAIRLE NAN EILEAN SIAR

## INTERNAL AUDIT MANUAL

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### I. Introduction

- 1.1 This manual has been compiled to give an overview of the work of the Internal Audit section and the way in which work has to be carried out. The manual will be of particular help to new staff but is also an essential source for existing staff looking for information about new topics, techniques or how to approach a particular task.
- 1.2 Internal Audit is governed by policies, procedures, rules and regulations established by the Comhairle. These include Financial Regulations, Conditions of Service, Fraud Procedures and Code of Conduct for Employees.
- 1.3 The Internal Audit section has to meet the standards laid down by professional bodies such as the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA). One of the tasks of the external auditor is to carry out reviews of Internal Audit arrangements within local authorities.
- 1.4 The **mandatory** standards of professional practice, which have to be met by Internal Audit, are laid down by the International Professional Practices Framework (IPPF) and its interpretation within the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note. The standards cover: -

#### **International Auditing standards**

- Purpose, Authority and Responsibility (std's 1000 and 1010)
- Independence and Objectivity (std's 1100 – 1130)
- Proficiency and Due Professional Care (std's 1200 – 1230)
- Quality Assurance and Improvement Programme (std's 1300 – 1322)
- Managing the Internal Audit Activity (std's 2000 – 2070)
- Nature of Work (Std's 2100 – 2130)
- Engagement and Planning (std's 2200 – 2240)
- Performing the engagement (std's 2300 – 2340)
- Communicating Results (std's 2400 – 2450)
- Monitoring Progress (std 2500)

- 1.5 In addition to the standards set out in paragraph 1.4, CIPFA have published a document called 'The role of the Head of Internal Audit'. This document supports and supplements the Public Sector Internal Audit Standards and Application Note issued by CIPFA and IIA; the Comhairle's Internal Audit section fully acknowledges this additional information in the discharge of its responsibilities and conduct.
- 1.6 The PSIAS covers all public sector requirements and the Local Government Application Note had been produced by CIPFA in order to assist in the interpretation of the standards within a local authority setting. The Local Government Application note is available to all staff within the Comhairle's Internal Audit section.

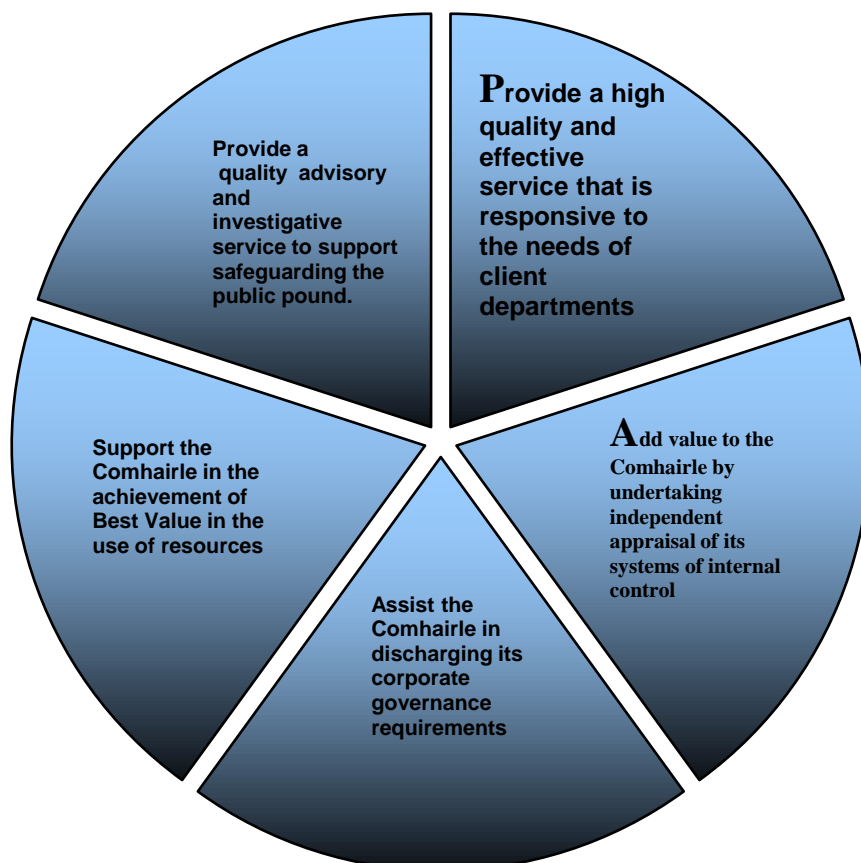
## II. Policy and Standards

### 2.1 Internal Audit Charter

This Internal Audit charter aims to describe the purpose, authority and principle responsibilities of Internal Audit within the Comhairle. The Charter is available as a stand-alone document and will be placed on the Comhairle's Intranet for information.

#### MISSION STATEMENT

*Internal Audit aims to:-*



### TERMS OF REFERENCE/PURPOSE

As an independent assurance function within the Comhairle, the primary objective of Internal Audit is to review, appraise and report on the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources. In addition, Internal Audit aims to:-

- Support elected Members and officers of the Comhairle in the effective discharge of their responsibilities;
- Specifically support the Director for Strategic Finance in discharging his duties as proper officer;
- To continue to support and promote the need for sound financial and operational systems and controls;
- Provide a quality advisory and investigative service which contributes to the aim of safeguarding the public pound;
- Maintain a level of independence and integrity which supports the proper delivery of the internal audit function;
- To promote and encourage good governance throughout the Comhairle; and
- Assist the Comhairle in meeting its objectives, plans and outcomes.

The Comhairle adopted a set of agreed priorities with the Scottish Government called Local Outcomes. Internal Audit takes cognisance of these objectives and themes when planning and performing internal audit work, with each planned review within the Internal Audit strategic plan being overtly linked to the Comhairle's associated objectives. The terms of reference are periodically reviewed by the Chief Internal Auditor on a three year cycle as part of the strategic planning process. Any proposed changes are advised to the relevant Comhairle committee.



### DEFINITION

The International Professional Practices Framework defines Internal Audit as:-

*“an independent, objective 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.”*

### AUTHORITY

The authority of Internal Audit is laid out in Financial Regulations 6 to 8. In practice, Internal Audit team members shall have authority, on production of identification, to:-

- Obtain entry at all reasonable times to any Comhairle premises or land;
- Have access to all systems, records, documents and correspondence relating to financial and other transactions of the Comhairle;
- Require and receive such explanations as are necessary concerning any matter under examination; and
- Require any employee of the Comhairle to produce cash, stores or any other Comhairle property under his / her control.

### INDEPENDENCE

Internal Audit will be sufficiently independent of the activities it audits to enable audit staff to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. Internal Audit staff will have no operational responsibilities.

Internal Audit shall report directly to the Director for Strategic Finance who has statutory responsibility as proper officer under Section 95 of the Local Government (Scotland) Act 1973

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for ensuring an effective system of internal financial control and proper financial administration of the Comhairle's affairs.

Internal Audit will have direct access to the Chief Executive who carries the responsibility for the proper management of the Comhairle and for ensuring that the principles of good governance are reflected in sound management arrangements.

Internal Audit shall also have direct access to the Comhairle's Monitoring Officer and Audit Scotland where matters arise relating to the conduct of the Chief Executive in areas of Chief Executive responsibility, legality and standards.

Where it is considered necessary to the proper discharge of Internal Audit functions, Internal Audit staff will have direct access to elected Members of the Comhairle and in particular those who serve on the Audit and Scrutiny Committee or other committees/sub committees charged with governance.

### **DUE PROFESSIONAL CARE**

Internal Audit will conduct work with due professional care.

Due professional care is the care and skill that prudent and competent Internal Audit staff will apply in performing their duties. These include:-

- Working with competence and diligence;
- Use of internal audit skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect; and
- Working in compliance with auditing International standards approved by the Auditing Practices Board, as interpreted in the Public Sector Internal Audit Standards and CIPFA's Local Government Application Note.

Due professional care will be appropriate to the objectives, complexity, nature and materiality of the internal audit work being performed.

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Internal Audit staff must treat as confidential the information they receive in carrying out their duties. There must not be any 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.

### RESPONSIBILITIES

#### Scope

To enable Internal Audit to meet its objectives, it will undertake the following activities:-

- Review of controls within and surrounding existing systems and systems under development;
- Checking compliance with Comhairle Financial Regulations, Standing Orders etc;
- Transactions testing to confirm accuracy of processing;
- Computer audit;
- Contract audit;
- Investigation of suspected fraud, corruption and irregularities;
- Value for money and Best Value studies;
- Governance reviews;
- Risk management arrangements reviews;
- Audit of statutory performance indicators; and
- Provision of advice to Members and staff of the Comhairle and to partner organisations.

#### Responsibilities in relation to internal control

Internal Audit cannot be a substitute for effective internal controls. It is the responsibility of the Comhairle's management to maintain adequate and effective financial, risk management and performance systems and to arrange for a system of internal controls and corporate governance. Internal Audit is responsible for evaluating these systems and associated internal controls.

### Reporting procedures

Internal Audit reports will be distributed as follows:-

- Responsible directors and responding officers in client departments will receive a copy of the Internal Audit report at the conclusion of the internal audit assignment;
- The Chief Executive (or his nominated representative), the Director for Strategic Finance, and the Comhairle's external auditor will receive copies of all Internal Audit reports, as will members of the Audit and Scrutiny Committee unless it is considered appropriate for them to receive summaries thereof; and
- The Comhairle's Monitoring Officer will receive copies of internal audit reports where these contain issues of a legal nature.

Operational reports will be issued in draft within two weeks of the completion of internal audit fieldwork, and management will be allowed a further two weeks to consider the draft reports and provide their responses to recommendations made therein. The final report will be issued within a further week of receipt of management responses.

The three-year strategic audit plan will be submitted to the Audit and Scrutiny Committee (which subsequently reports to the full Comhairle) at the beginning of the first financial year to which it relates. The plan will be compiled following consultation with the Chief Executive, the Director for Strategic Finance and all service directors.

The annual Internal Audit plan will be submitted to the Audit and Scrutiny Committee at the beginning of the financial year. The purpose is to advise Members of the programme of audit work for the forthcoming financial year.

The annual audit report and quarterly progress reports showing the activity of Internal Audit and progress achieved against plan will be submitted to Audit and Scrutiny Committee Members. The annual report will include Internal Audit performance indicators and an opinion on the overall adequacy and effectiveness of the organisation's internal control environment.

### **Fraud, corruption and irregularity**

Managing the risk of fraud, corruption and irregularity is the responsibility of management. Internal Audit will assist management in effective discharge of this responsibility.

Internal Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud, corruption and irregularity will be detected. Internal Audit does not have responsibility for the prevention and detection of fraud, corruption or irregularity. Internal Audit staff will, however, be alert in all their work to risks and exposures that could result in fraud, corruption or irregularity.

Where instances of potential fraud or irregularity are drawn to the attention of Internal Audit, investigations will be undertaken, where appropriate, in accordance with the defined Internal Audit Fraud, Corruption and Irregularity Response Arrangements.

The current Internal Audit staffing needs have been determined as a minimum of 3 staff, the current staffing of the section is as follows:-

- Chief Internal Auditor – CPFA, CA
- Auditor – (PIIA) (IIA Aff)
- Trainee Auditor

The Chief Internal Auditor reports directly to the Director for Strategic Finance except in those circumstances where the Chief Internal Auditor perceives that there may be a conflict of interests or in the absence of the Director for Strategic Finance in which instance the reporting line is directly to the Chief Executive. In addition, there may be circumstances which require the Chief Internal Auditor to report findings directly to Audit Scotland. This reporting arrangement complies with best practice. The appointment of staff will be in terms of the Comhairle's recruitment policy and skills will be determined based on best practice as outlined in the CIPFA publication 'the excellent Internal Auditor'.

### 2.3 Staffing Policy

The Internal Audit Section required to be staffed with individuals having the appropriate qualifications and experience. In addition, resource requirements will be assessed annually based on the operational plan and other commitments.

In particular, the Chief Internal Auditor and any third party who provides professional, technical and quality control support **must** be CCAB/IIA qualified.

### 2.4 Training Policy

This training policy is intended to support the provision of formal and effective training to enable all staff within Internal Audit to carry out their work in accordance with the required standards laid down in the audit manual.

#### 2.4.1 Procedure

- a) Training requirements for Internal Audit staff will be clearly linked through SDA to their particular role or their anticipated future role in the Comhairle.
- b) The Chief Internal Auditor is responsible for SDA implementation and for putting procedures in place so that each team member is appropriately qualified and trained.
- c) Induction training will be provided to all new permanent or temporary internal audit staff in line with the Internal Audit Induction Training Framework.
- d) Where a particular training need is identified, the Chief Internal Auditor will consider the use of: -
  - in-house training course
  - external training course
  - arrange for the member of staff to work alongside someone with the required expertise.

e) The training needs of all staff will be reviewed annually and discussed with them.

f) All training undertaken by Internal Audit staff will be recorded on their personal training record.

#### **2.4.2 Responsibility**

It is the responsibility of the Chief Internal Auditor to identify the training needs of staff and to take steps to achieve the completion of all training programmes as directed.

### **2.5 Comhairle's Policy on Best Value**

The Comhairle agreed Local Outcomes with the Scottish Government and a fundamental element of service delivery is to provide Best Value public services. This priority is underpinned by 15 Strategic Objectives aimed at the provision of Best Value public services. Particular emphasis is placed on:-

- working in partnership with Community Planning partners
- strengthening financial scrutiny of projects and programmes
- performance monitoring and public performance reporting
- securing financial stability and Best Value for the Comhairle through any trading activities

Internal Audit have responded to these priorities by identifying within the strategic internal audit plan which objective will be addressed in each planned internal audit exercise.



#### 2.6 **Risk Management Policy**

##### 2.6.1 **Policy Statement**

The Comhairle is dedicated to the management of risks within its control in order to safeguard employees, protect assets, preserve and enhance service delivery to the population, maintain effective stewardship of public funds and promote a favourable corporate image.

##### 2.6.2 **Aims and Objectives**

- To initiate measures which will reduce the Comhairle's exposure to risk and potential loss.
- To promote an awareness of risk amongst Comhairle employees and members of the public who use the Comhairle's services.
- To establish standards and principles for the efficient management of risk. This process will involve the identification and evaluation of risks to create practical and cost-effective means of loss control and avoidance.
- Risk financing techniques, including insurance, will be used to fund fortuitous and catastrophic loss. Self insurance will be used within agreed financial parameters to optimise the benefits of risk retention, relative to premium economy.
- Risk management is recognised as a continuous process demanding awareness and action from employees at every level to reduce the possibility of injury and loss.

In implementing this policy the Comhairle will:

- Promote a positive risk management culture in respect of working practices of the Comhairle.
- Raise the level of awareness of risk management through the dissemination of information and appropriate training.
- Liaise with partnership organisations and local people.
- Identify and evaluate risks for likelihood and severity in order to implement practical and cost-effective methods of loss control and avoidance.
- Maintain a comprehensive record of losses.

#### 2.6.3 **Responsibilities**

##### **The Comhairle**

To secure the highest quality of life for the citizens of the Western Isles, the Comhairle endorses the Risk Management Policy in order to protect its assets and as an integral part of its vision for the authority.

##### **Services**

To meet their statutory responsibilities for risk management ensuring the Comhairle's exposure to risk is reduced. To achieve this, managers at all levels have a responsibility for implementing and monitoring risk management practices in their area of work.

##### **Employees**

In the belief that every employee is a risk manager, all employees are encouraged to make suggestions that assist or contribute to the control of loss. The Comhairle expects employees to make every effort to be aware of situations which may place themselves or others at risk and report identified hazards.

#### 2.6.4 **Risk Management and Best Value**

Risk management and best value share a number of common goals:

- they are both based on principles of quality management
- they require a co-ordinated and integrated approach across all areas of corporate activity
- everyone in the chain of service needs to be involved in the process.

It can be argued that best value cannot be delivered unless the organisation's assets and objectives are protected. Risk management is a system for controlling all risks that threaten the assets and objectives of the authority and so the two concepts form a valuable partnership.

## 2.7 File retention and management policy

### 2.7.1 Policy aims

The **aims** of the file retention and management policy are based on retaining:-

- Information on documents that should be kept as a matter of general good management and best practice. This may be as evidence of best practice as an audit service, monitoring performance etc;
- Information that must be kept to ensure that all regulatory requirements for external reporting are accurately complied with e.g. tax, legal, accounting, audit etc; and
- To meet defined industry specific requirements.

No specific guidance or suggested retention periods are provided by the IIA, CIPFA or other regulatory organisations.

### 2.7.2 Developing the policy

In practice, in **developing** the policy, consideration has been given to:-

- The need to secure internal audit documentation within the internal audit office, with access restricted to internal audit staff only;
- The need to adopt a disciplined approach to the security of internal audit information;
- The need to be able to demonstrate to external audit, on an annual basis, that the work detailed in the terms of reference has been performed and that appropriate internal audit procedures have been followed;
- The need to access permanent information relevant to each review to avoid duplication of effort in future related reviews and to provide access to appropriate background information prior to the commencement of each review;

- The different requirements of standard reviews and internal audit investigations; and
- The potential need to access detailed files to answer queries.

### 2.7.3 Contents of the policy

Based on the outcome of the above assessment, the **file retention and management policy** for internal audit is as follows:-

#### **“Internal Audit File Retention and Management Policy”**

*In addition to the working files for the current financial year, files related to planned Internal Audit reviews in the previous **four** financial years should be retained intact, and stored in the locked cupboards in the internal audit section or in the secured storage area.*

*At the end of each financial year, and as part of the internal audit year-end procedures:-*

- *the files related to the earliest financial year should be removed from the filing area;*
- *permanent information should be removed from each of these files and placed on a new file to be set up in anticipation of future reviews (the retained information will include organisation charts, the Comhairle’s policies and procedures, systems notes, flowcharts, professional and technical information, previous audit reports); and*
- *the remaining working papers from each file should be bagged and sent as confidential waste for shredding.*

*The complementary policy for investigation files will be to destroy files after **five** years, except if the employee who was the subject of the report remains an employee of the Comhairle, in which case the files should be retained for a further period outlined in*

*the policy. When files are earmarked for destruction, signed copies of reports should be removed from the file and retained. In addition, all electronic data, where appropriate, will be permanently deleted for the same period as outlined above. (See file management and retention policy)*

### III Audit and Scrutiny Committee

#### 3.1 Audit and Scrutiny Committee: Constitution and Remit

##### 3.1.1 Membership

Ten Members to be selected by the Comhairle to serve on the Audit and Scrutiny Committee:-

- Chairman and Vice-Chair ex-officio;
- Must not be Members of the Policy and Resources Committee; and
- Members should exclude themselves if the matter which has been before the Human Resources Sub-Committee, if attended.

##### 3.1.2 Quorum

Four Members of the Audit and Scrutiny Committee

##### 3.1.3 Purpose

- To promote good stewardship of the Comhairle's resources, enhancing the profile, status and authority of the audit function, ensuring its independence and to monitor internal and external audit performance.
- To provide an objective evaluation of performance for the Comhairle and an effective and fair appeals mechanism.
- To monitor performance in relation the review of best value and community planning.

##### 3.1.4 Functions

- To agree the annual and strategic audit plans.

- To review internal audit progress against the audit plan and consider Internal Audit performance measures.
- To receive and consider a summary of Internal Audit work undertaken since the last meeting, including the current status of work.
- To receive and consider executive summaries of system reviews, VFM reports and contract audit reports.
- To receive and consider executive summaries of special investigation reports.
- To receive and consider a chronological summary of internal audit reports awaiting a departmental response and address any problems identified.
- To monitor the follow up reports of recommendations actioned.
- To consider all external audit reports.

#### Standards

- To promote high standards of conduct by members and assist them to observe the code of conduct and guidance from the Standards Commission for Scotland, under the Guide to Ethical Standards in Public Life etc (Scotland) Act 2000. This does not include conducting any investigations into the behaviour of members or recommending of any sanctions against a member who may appear to break the code of conduct and related guidance; such powers lie with the Standards Commission for Scotland.
- To recommend appointment of a Standards Panel to fulfil the functions relating to promotion of standards of conduct and to disseminate guidance issued by the Standards Commission for Scotland.
- To consider the CIPFA guidance issued October 2022 regarding the Position Statement setting out the purpose, model, core functions and membership of a local authority committee. Specifically whether the audit committee considers the circumstances in which lay audit committee members could be appointed.

#### Scrutiny & Review and Appeals

- Specific details held in the Scheme of Administration.

The Audit and Scrutiny Committee will have power to determine action in respect of reports presented to it. The conclusions of the Audit and Scrutiny Committee will be reported for approval to the full Comhairle.

#### 3.1.5 **Meetings**

The Audit and Scrutiny Committee will normally meet four or five times per year. In February, March, June, September and December, with additional meetings called as necessary to address specific issues.

Meetings of the Audit and Scrutiny Committee will be conducted in accordance with the Comhairle's procedures for committees. Specific items to be heard which are of a confidential and personal nature will not be open to the public or press.

## IV. **Relationships with Clients**

### 4.1 **Service Level Agreements**

#### 4.1.1 **Introduction**

The basis of work carried out by Internal Audit is contained within a service level agreement between Strategic Finance and all departments. This includes a strategic audit plan of scheduled audits as well as other services available to be used as required.

#### 4.1.2 **Procedure**

The preparation and agreement with the department of the schedule of planned audits comprises the following stages:-

- Preparation of the draft audit plan after discussion with other sections of Strategic Finance (including service accountants) and the external auditor.
- Issue of the draft audit plan to directors of customer departments for comment on the timing and content of audits and the plan in general.
- Consideration of the responses and comments of the directors.
- Signing of the final audit plan by Director for Strategic Finance.

Two top copies of the audit plan are produced and signed by the Chief Internal Auditor. Copies are sent to the customer departments, Chief Executive and the external auditors. One copy is retained in the internal audit office and filed.

When the agreements are signed a summary of the agreed work is passed to the relevant supervisor for putting into effect at the start of the financial year.

### 4.2 **Reporting Arrangements**

Reporting arrangements are as detailed in the Internal Audit Charter (see paragraph 2.1) and approved by the Audit & Scrutiny Committee.

### 4.3 **Consultation**

4.3.1 Internal Audit is often approached for either financial advice and assistance or to carry out enquiries which do not form part of the agreed plan.

4.3.2 As financial advice can consist of a brief answer to a telephone call there is a need for a minimum thresh-hold and accordingly the procedure does not cover any such work that will probably take less than one day to complete.

4.3.3 Any member of Internal Audit who is approached with a view to carrying out additional work should approach the Chief Internal Auditor for approval of the additional work. Factors to be taken into account in the decision will include the nature of the work, the available resources and current progress against the audit plan.

4.3.4 The 'Role of the Head of Internal Audit' was reviewed and updated by CIPFA and published April 2019. The CIPFA statement sets out the five principles that define the core activities and behaviours that belong to the role of the Head of Internal Audit in public service organisations. The Comhairle's Internal Audit section fully aspires to such principles and have created an information base to promote good governance



which is available of the Comhairle's intranet site. In addition, The Chief Internal Auditor should be consulted on all proposed major projects, programmes and policy initiatives. This requirement has also been placed in the recent update of the Financial Regulations.

4.3.5 The normal method of recording the internal audit response to requests for additional work is to prepare a technical briefing. To date technical briefings have been prepared of a number of topical and challenging technical subjects, for example:-

- Role of the Head of Internal Audit (Technical briefing)
- Internal Audit requirements of the Integrated Services (Technical briefing)
- Financial procedures Cash and Imprest (Technical briefing).

Copies of these technical briefings can be made available to interested officers and Members on request to the Internal Audit team.

## **V. External Audit and other review bodies**

### **5.1 Relationships**

#### **5.1.1 Principles of good relationships**

The Chief Internal Auditor should seek to co-ordinate internal audit plans and activities, as far as practicable, with line managers, other internal auditors, external audit, inspection bodies and other review bodies to achieve the most effective overall audit coverage and minimise duplication of effort.

#### **5.1.2 Relationships with other internal auditors**

Where Internal Audit need to work with the internal auditors of another organisation, a practice which will become increasingly likely with the advent of Joint Working, the roles and responsibilities of each party should be defined and agreed. A service level

agreement (SLA) has been agreed between Glasgow City Council for computer audit services and by Highland Council for access to audit software. All work undertaken on behalf of the Comhairle will be done so in compliance with professional standards currently in place.

#### 5.1.3 Relationships with external auditors

The aim of the relationship with External Audit is to achieve mutual recognition and respect and to avoid duplication of work. External Audit will seek to place reliance on Internal Audit work, and to achieve this there is a need for regular meetings between representatives of the two parties to consult on audit plans, discuss matters of mutual interest, discuss common understanding of audit techniques and methods, and to seek opportunities for co-operation in the conduct of audit work.

External Audit will be provided with copies of all internal audit plans and finalised reports, and have right of access, on request, to all internal audit files.

Annual fraud and irregularity returns which require to be submitted to the external auditors at the end of each financial year will be completed by the Internal Audit team. Internal Audit will aim to submit these returns to external audit by 30 April each year. The fraud returns which relate to Housing and Council Tax Benefit will not be the responsibility of Internal Audit. Instead, external audit will liaise directly with the relevant sections for the provision of that information.

#### 5.1.4 Relationships with other review bodies

The aim of such communication is to avoid duplication of work but also to assess what work has been undertaken and what had not, this will allow the Internal Auditor to determine what work needs to be undertaken. In terms of applicable standards for relying on work of other auditors/assessors (Standard 2050) the standard requires the approach taken to be set out and that the assurance framework must be taken into account in the plan. This will entail aping of assurances provided by others and

determination of whether reliance can be placed on their work or that the work will need to be undertaken by the auditor themselves.

#### 5.1.4 **Relationships with other review bodies**

There is likely to be an increasing need to work with, or at least be aware of work being undertaken within the Comhairle, by other review bodies such as Education Inspectorate, the Care Inspectorate, Scottish Government, Department for Work and Pensions etc. Where appropriate, Internal Audit will seek to establish a dialogue with these review bodies and share appropriate information, having regard to rights of access and confidentiality considerations. While it is unlikely that Internal Audit will require to contact these review bodies directly in the normal course of their work, it may prove necessary to amend internal audit plans in the event of review bodies indicating an intention to visit the Comhairle, in order to avoid duplication.

#### 5.1.5 **Relationships with Elected Members**

The Chief Internal Auditor should seek to promote a good working relationship to those elected members on the Comhairle's Audit and Scrutiny Committee. Relationships with elected Members should be on a professional basis and provide support to the effectiveness of their role on the Comhairle's Audit and Scrutiny Committee. Meetings with the Comhairle's Audit and Scrutiny Committee or specific Members of the Audit and Scrutiny Committee, can be done so in private, if requested by the Chief Internal Auditor.

#### 5.1.6 **Relationships with Joint ventures, Partners and Shared Services**

The Chief Internal Auditor should seek to engage where appropriate, in joint ventures, partnerships and shared services where the Comhairle has an interest. The Comhairle's Internal Audit section must also highlight any concerns or control weaknesses that arise from any third-party involvement where the Comhairle may have an operational, financial or strategic interest.

### VI. Audit Planning

#### 6.1 Audit Needs Assessment and Risk Analysis

6.1.1 The compilation of the strategic audit plan should take account of an internal audit needs assessment based on ranking of identified risks. Risks are those events or circumstances which impinge on the ability of the Comhairle to achieve its corporate aims and values and the strategic objectives which underpin them. It is necessary to measure separately the likelihood of a risk occurring and the impact that the particular risk would have if it was to occur.

6.1.2 The risk assessment model employed by Internal Audit takes into account the inherent risks associated with a process or activity and the residual risks following the application of controls.

Risks are ranked taking the following factors into account:

- a) materiality – based on volume/value of transactions,
- b) system control environment – based on the overall stability of the system and the likelihood and impact of systems failure,
- c) management concerns – the effect on the ability to achieve specified aims or objectives,
- d) political sensitivity – based on the overall importance to the Comhairle of the system, in terms of loss of status if there is a system failure or poor performance and prestige value if the system operates well and the subsequent public interest,
- e) regulatory compliance – the degree and regime of compliance required in relation to laws, procedures and guidance,
- f) system complexity – The complexity of the system involved, its staffing and budgets,
- g) last time audited – Assessment of the time lapse in receiving audit coverage.

#### 6.2 **Strategic Planning**

The strategic plan consists of a three-year programme of internal audit work based on the risk assessment and analysis results. It is issued for comment at draft stage to the Chief Executive, all service directors and external audit. A final draft, which takes account of comments received, is approved by Members prior to finalisation.

The strategic plan is updated each year to take cognisance of changing priorities within the Comhairle.

The current plan covers the period from 1 April 2023 to 31 March 2026.

In practice, the strategic plan also matches available Internal Audit resources with required tasks and highlights shortfalls and surpluses in resources to the Director for Strategic Finance and Audit and Scrutiny Committee members. The Chief Internal Auditor will bring to the attention of the Audit and Scrutiny Committee any consequences where there is a belief that resource levels will impact on the provision of the annual opinion.

#### 6.3 **Operational Planning**

The annual, operational audit plan is derived from the strategic plan in terms of planned assignments to be undertaken during the year. The plan also incorporates recurring tasks and includes a contingency allocation for investigations and other unplanned enquiries. The draft operational audit plan is presented to the Audit and Scrutiny Committee in March each year for approval.

#### 6.4 **Assignment Planning and Control**

6.4.1 Before the start of an audit assignment, audit staff must prepare a written terms of reference for the exercise, based on the operational plan. The terms of reference, which are prepared in a standard format, include budgeted days for the audit exercise, the start date and the objectives to be achieved.

6.4.2 The terms of reference identify the lead auditor, the audit team member who will undertake the exercise, the responsible service director and the responding officer within the service being audited.

The draft terms of reference is expected to be approved by the Chief Internal Auditor prior to issue to the responsible director, and should be signed by the auditor, the lead auditor or Director for Strategic Finance as appropriate, and the responsible director as evidence that they accept the objectives of the exercise.

6.4.3 All internal audit assignments are subject to regular supervision and review by the Chief Internal Auditor or, where appropriate, the partner responsible for providing computer auditing services. During each review, the working papers file required to be reviewed by the Chief Internal Auditor or partner, with review points being documented and returned to the auditor for clearance. Each section working paper control document requires to be initialled and dated, by both the person who prepared it and the reviewer as evidence.

## **6.5 Audit Approach**

6.5.1 All staff have to complete a declaration of interest based on both professional and community involvements with other groups, organisations etc.

6.5.2 A register is maintained in the internal audit office of such declarations of interest.

6.5.3 The Chief Internal Auditor on allocating work to staff must take cognisance of any declarations made, in so far as to minimise risk of a conflict occurring.

6.5.4 Staff joining the audit team from within the Comhairle, should not engage in auditing an area of previous responsibility for a minimum of two years.

### 7. Quality Management

#### 7.1 Auditing Standards

All work undertaken by Internal Audit is performed in accordance with both International Professional Practices Framework (IPPF) and the “Institute of Internal Auditors Standards and Guidelines for the Professional Practice of Internal Auditing”. Reference can be made to these documents in the Audit Library. In addition, the Public Sector Internal Audit Standards, Local Government Application Note and Heads of Internal Audit principles published by CIPFA and IIA. (Note amendment from 1/4/16 and 1/4/19)

#### 7.2 Administration

##### 7.2.1 Individual Audit Assignments

###### a) Introduction

The control of individual assignments is fundamental to the effectiveness and quality of Internal Audit. Supervision should be exercised during the planning and preparation phase, the actual conduct of the work, the report stage and follow-up phase.

The supervisor should ensure that the auditor: -

- i) receives specific, written instructions (terms of reference) about what is to be done (the objectives), how it is to be done (the method) and the estimated number of hours for the job.
- ii) has an agreed programme of work (audit programme).

###### b) Conduct of the audit

The supervisor should monitor the progress of the audit, e.g.

- i) is the audit being carried out within the allotted time.
- ii) if the audit is behind time, why is this the case?

- iii) have circumstances arisen which could mean that the scope of the audit should be widened? If so, can extra time be justified?
- iv) has the auditor met any difficulties and can these be resolved?
- v) are the terms of reference being followed?

c) Completion of the Audit

The supervisor should:-

- i) assess whether the original objectives have been met.
- ii) review the file of working papers and establish whether these support the conclusions reached and whether the papers comply with required standards.
- iii) where relevant, review the terms of reference to ensure that all areas have been covered.
- iv) compare the actual versus allocated times and explain variances.
- v) Review and vet the final report, including compliance with layout standards and timescales for completion.
- vi) Where the client does not intend to implement a recommendation, he/she will be required to sign a risk acceptance form.

d) Follow Up

The Supervisor should:-

- i) ensure that services respond to audit findings within the laid down timescales and that reminders are issued timeously where required.
- ii) issue the appropriate questionnaire to the service concerned to help assess the performance of the audit.
- iii) review progress of implementation of recommendations at appropriate intervals and report findings to Committee.
- iv) Where there is evidence that agreed actions have not been completed, the Audit and Scrutiny Committee will then determine what further assurance it requires to monitor implementation.

e) Appraisal

An appraisal of the audit should be carried out once it has been completed. This should cover questions such as:-



- i) what problems/obstacles were met?
- ii) were the targets realistic?, (e.g. allocated hours and completion date).

These appraisals may reveal deficiencies, which have to be remedied, e.g.

- the need for more training.
- the need for different audit techniques.
- better planning.

f) Working Papers and Files

The audit working papers and files are one of the main review and assessment tools available to supervisors and to external reviewers of Internal Audit such as the external auditor. They should provide evidence of work performed, problems met and conclusions drawn. They should be prepared as the audit progresses so that no details are omitted.

At the conclusion of an audit, Supervisors should complete the reviewers checklist as evidence that the working papers/file has been reviewed and that the following requirements have been met: -

- i) all rough notes and unnecessary working papers have been removed from files
- ii) all papers are tidy, legible and understandable
- iii) each paper is initialled by the auditor, numbered, dated and includes the title of the audit
- iv) the written work instruction is on file
- v) the working papers demonstrate that all the audit objectives have been met
- vi) the work performed and results obtained are adequately documented
- vii) conclusions and recommendations are supported by evidence
- viii) conclusions and recommendations are cross-referenced to the working papers
- ix) the supervision of the audit is evident from the working papers
- x) the review process is evidenced by the reviewer initialling and dating the appropriate working papers
- xi) the review points are recorded and cleared

xii) working papers and other documents are listed on the index sheets.

g) Standard Documentation to be used by auditors

Terms of Reference

i Auditors should be given a written instruction for each piece of work by the Chief Internal Auditor. Auditors should ask for a written instruction if one is not given to them.

ii Preliminary Meeting with Auditee

The purpose of this is to prompt the auditor to have preliminary discussions regarding the terms of reference with the auditee. It is a *guide* not a definitive list. Some points listed may not be relevant while other relevant areas to an audit are not mentioned.

iii Investigation Start Sheet

This form is to be used only in the investigation of misappropriations and other irregularities and must contain details of who, what, when, where and how Internal Audit were notified.

iv Contents Lists for each working section of the file

v Standard Pads of Working Papers

Auditors should ensure that all notes and other workings are recorded on the standard pads of internal audit working papers.

vi Imprest Reconciliation

vii Cash Count Reconciliation

viii Interview Records

ix Findings Records

x            Report

### 7.2.2 **Standard Report Format**

There is a basic standard format for report writing. Each report should be laid out as per the format agreed by the Audit and Scrutiny Committee, as follows: -

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#### **I            EXECUTIVE SUMMARY**

##### **Introduction**

Details of operational plan/investigation

##### **Background information**

Details of legal aspects

Details of computer system

Finance details

Staffing details

Details of work undertaken

##### **Internal Audit Objective**

Details of review of procedures and control arrangements, detailing areas of particular relevance.

##### **Concluding Remarks**

Details of findings grading system and summary of recommendations

### **II DETAILED FINDINGS AND RECOMMENDATIONS**

Identify significant matters in relation to the control objectives of the system that we consider require management attention, with appropriate recommendations and benefits to the Comhairle.

The items for management attention of a housekeeping nature.

### **III ACTION PLAN**

Identifying in detail the officer responsible for implementation of individual recommendations and the date of that implementation.

### **IV APPENDIX**

Identifying the respective responsibilities of management and Internal Audit in relation to internal controls and fraud and corruption.

### **Other Importance issues concerning communications, Disagreements, Errors, Omissions and PSIAS Conformance**

- 1. In the unlikely event that common agreement cannot be reached by the engagement auditor and management in relation to a recommendation, the overriding duty by the auditor is to report risk to those charged with governance. In effect the auditor will report that failure to seek common agreement and reflect management's comments to the Audit & Scrutiny Committee. (Via Risk Acceptance Certificate)**
- 2. In the event that any final communication is issued where a significant error or omission has occurred, the auditor will inform the Chief Internal Auditor and the matter will be corrected and all parties who received the original communication will be advised and provided with any correction.**
- 3. Where any non-conformance with PSIAS has impacted on a specific engagement any subsequent communications must:- Identify and disclose non-conformance, the reasons for non-conformance and the impact.**

### 8. **Performance Management**

#### 8.1 **Time Management System**

All audit staff are expected to keep a time record via 'Galileo', for use in the compilation of quarterly statistics and for annual recharge billing. This system is maintained by Highland Council.

#### 8.2 **Performance Reporting**

A quarterly report is published which shows the actual audit time spent on the main activity categories and on the Comhairle's departments. The actual performance is compared with the planned activity for the period concerned.

The report, together with notes explaining variances, is submitted to the Director for Strategic Finance, Chief Executive and the Audit and Scrutiny Committee.

The quality assurance and improvement programme require both internal and external assessments. Internal are both ongoing and periodical and external assessments must be undertaken once every five years. In practice, this will be undertaken by self-assessment, External Audit annual reviews and by external evaluation of the self-assessment every five years. The Chief Internal Auditor will discuss the format of the external review with the Audit and Scrutiny Committee.

#### 8.3 **Performance Indicators for Internal Audit**

- 8.3.1 The indicators which follow are those recommended for Internal Audit Services by the Best Value Working Group of the CIPFA Directors of Finance Section and other agreed local performance indicators. The indicators have been adopted by the Comhairle.

### 9. The Audit Service

#### 9.1 Systems Based Auditing

##### 9.1.1 Introduction

One of Internal Audit's roles is to identify and evaluate the Comhairle's internal control systems as a basis for reporting upon their adequacy and effectiveness. Internal control can be defined as a process designed and effected by management to provide a reasonable assurance that the following is achieved:

- cost effective adherence to policies and directives in order to meet established goals and objectives;
- safeguarding of assets;
- ensuring the relevance, reliability and integrity of information; and
- compliance with applicable laws and regulations.

The objective of a systems-based approach to auditing is to assess how well an organisation's systems and internal controls work and their consistency and continuity, with a view to placing reliance upon them rather than upon the outputs of the systems when forming an audit opinion. The stages of a systems-based audit will normally be:

- identify the system parameters and management objectives;
- document the system;
- determine the control objectives – control objectives are management's stated intentions, which assist in the design of systems, in order to ensure that control is adequate to achieve management objectives, both financial and other;
- identify expected controls to meet control objectives;
- review the system against expected controls;
- appraise the controls designed into the system against control objectives;
- test the actual controls for effectiveness against control objectives;
- test the operation of controls in practice; and

- give an opinion as to whether the system provides an adequate basis for effective control and whether it is properly operated in practice.

Systems based auditing is relevant only to mainstream systems, which are material to the organisation. It is particularly suited to systems, which process a large volume of transactions, if this is not the case then it may be more efficient to individually test specific transactions.

#### 9.1.2 **Sources of Information**

There are various sources of information regarding a system, the main ones are detailed below:

- (1) The manager responsible for the system should be able to provide the auditor with:
  - a clear overview of the system and system objectives
  - any notes or manuals which may be in existence concerning the system
  - a list of the personnel dealing with the main parts of the system
  - details of the parts of the system in which they are involved.
- (2) It will be necessary to interview the employees dealing with main parts of the system to establish:
  - what documents are used;
  - where they come from;
  - what they are used for;
  - where they go;
  - what controls and checks are operated.

In the course of such an interview, it is useful to try to roughly flowchart the system as it is being explained and to confirm your understanding at the end of the interview.

- (3) To confirm that the record of the system is correct, a small number of transactions are followed (walked) through the entire system.

#### 9.1.3 **Recording the System**

Once you have information regarding the system this should be documented. There are three distinct techniques for recording systems:

- (1) narrative notes
- (2) flowcharts
- (3) internal control questionnaires

In most cases you will probably use a mix of the above techniques when documenting the system.

The documentation will normally cover the following:

- the nature of the transactions in the system
- the method of processing these transactions
- the way in which the system is controlled.

#### 9.2 **Computer Audit**

To maintain their independence, internal auditors must be able to understand and work with business systems that are exceedingly complex. Modern business is supported by bewildering systems which initiate transactions without human intervention, make decisions based on highly complicated logical models, transmit and store data in a myriad of electronic forms, interactively communicate with customers, operate machinery and create financial statements. Using artificial intelligence, “expert” systems replicate their human counterparts and make significant business decisions.

For internal auditors to make a real contribution to the organisation, they must be able to use the computer and understand the risks associated with its use. There is only one route to this understanding --- technical education and hands-on use. Internal auditors must be comfortable with EDP (electronic data processing) terminology, concepts and practical applications. Auditing “around the computer” becomes a meaningless term when nearly all records, transactions and processing decisions are automated.



Executives and operating managers depend on the internal staff to provide a realistic assessment of the risks in their organisation. With the proliferation of mini and microcomputers, layer upon layer of networking, vast data storage, decreasing levels of human review of transactions and rapidly evolving application systems, management desperately needs someone --- the internal auditor --- to provide the “big picture”.

The Comhairle like Orkney and Shetland Councils, obtain computer audit services via third party provision.

#### 9.3 **Contract Audit**

All forms of contracts can benefit from audit surveillance. Internal auditors should not wait until the project is underway to protect the Comhairle’s interests. Early participation is vital to evaluate bidding procedures, cost estimates, contractors’ accounting systems, budgeting, financial forecasting, tax treatment, cost control, financial reporting, systems of internal control and even contract terms.

Crucial importance is provision in the contract for system review and cost audits. Without these rights, the Comhairle is at the mercy of the contractor.

Contracts are seldom alike so a standard audit program is not usually appropriate. Internal auditors should use their experience to ascertain the hazards that exist within each individual contract. Internal auditors should focus on protecting the Comhairle from potential risk rather than checking numbers and documents.

Some of the risks and risk areas in contract agreements that should concern internal auditors are:-

- Tendering procedures not being followed.
- Contracts being artificially split to circumvent tendering procedures.
- Inadequate competition for emergency contracts.
- Certification of completion when work is not completed.
- Payments being made outwith contract terms.
- Charges for equipment/materials that are not received.

- Billing supervision as direct labour in violation of contract terms.
- Overhead items included as additional charges.
- Overhead costs billed directly.
- Escalation provisions.
- Changes in specifications or prices.
- Authorisation for extras or prices.
- Extras and revisions that are already part of the original contract.
- Failure to credit project for discounts, insurance rate refunds, returned or salvaged material.
- Extension of unit prices.
- Inadequate communication and follow-up from central office staff.
- Incorrect standard of materials and equipment used.

The Comhairle's internal auditors who undertake contract audit work have received specific training and approved courses provided by both professional institutes and other training organisations.

#### 9.4 **Value for Money Auditing**

##### 9.4.1 **Value For Money – a definition**

Value for money is the split between inputs and services provided. A pre specification of the level of service that is required in terms of quality and quantity. Achieving that level of service at the most economical cost is the challenge of achieving value for money.

##### 9.4.2 **Responsibility for Value For Money**

The external auditor has a statutory duty (under Section 99(c) of the Local Government (Scotland) Act 1973) to satisfy himself by examination of accounts and otherwise that the public sector body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Responsibility for securing value for money lies with the management, not the auditor. It may be

described as an attitude or culture within an organisation that is a prerequisite for achieving value for money.

**9.4.3 Value For Money Audit**

This type of auditing can be broken down into economy, efficiency and effectiveness. Economy is the study of purchasing goods or services of the quality desired at the best possible price. Efficiency is the relationship between inputs and outputs and this measures the use of goods and services towards a desired output. Effectiveness measures the relationship between outputs and objectives. It is a measure of the extent to which the organisation's outputs, policies and procedures achieve the desired objectives.

A pre-requisite of auditing value for money is to identify the objectives of the system. Following this it is necessary to identify the policies targeted at achieving these objectives.

Audit staff are also reminded that they should have a mind for value for money in the conduct of all of their work.

**9.4.4 The Audit Role**

The audit objective is to review the systems of management used to achieve value for money. One approach is to break down a value for money project into five stages:

1. The identification of an area where poor value for money exists.
2. The detailed investigation of the area to establish the facts.
3. The development of proposals to remedy the area.
4. The implementation of the proposals.
5. Monitoring the success of the remedy.

Audit involvement in stage one and two is advisable. However, it is not recommended that stages three and four involve Internal Audit. Internal audit scrutiny of the fifth stage will ensure the success of the project.

The means by which stage one is identified is by looking at the following –

- a) Performance Review Committees
- b) Comparative studies and statistics, e.g. Accounts Commission reports, Audit Commission reports and benchmarking clubs, etc.
- c) Invoice Scrutiny – perhaps noted during other audits
- d) Budgets and Budgetary Control – ledger analysis

The External Auditor's Code of Practice explicitly refers to a broad range of matters that the auditor may wish to review:-

- the role of members and senior management
- systems and processes for setting, evaluating and reviewing policies and objectives
- systems for planning, budgeting and controlling revenue and capital expenditure
- human resource management, including processes for determining and reviewing establishment levels, recruiting and retaining staff, training and staff development and performance management
- systems for ensuring that proper management control is exercised over key physical resources, such as land and property, supplies procurement and information technology
- systems for setting and monitoring standards and targets
- systems for ensuring that user requirements are understood and incorporated as appropriate into service specifications and that service provision is monitored and controlled.

## 9.5 **Best Value and Audit**

### 9.5.1 **What is Best Value**

The Local Government in Scotland Act 2003 sets out the requirement for all Local Authorities in Scotland to achieve 'Best Value' in the use of its resources. In terms of local application of this requirement, each local authority must have robust processes in place to evaluate, monitor and deliver services in an efficient and reliable manner. The elements required by Councils in implementing best value are:-

- a) An established performance management framework to deliver continuous improvement for all services.
- b) Clear commitment to the “4 C’s” (i.e. challenge, compare, consult and compete).
- c) Rigorous approach to the service delivery mechanisms/processes – rigorous approach to service delivery mechanisms including competition.
- d) Consistency with the four principles of best value
  - Accountability
  - Transparency
  - Continuous Improvement
  - Ownership(The Scottish Office DD Circular 12/98).

### 9.5.2 **Internal Audit and Best Value**

Similarly, the approach taken in the Internal Audit section is not prescriptive and whatever approach is taken to devising best value service plans or service reviews, an audit will be carried out. The overriding principle involved is whether the service review process has demonstrated rigour or robustness. The Comhairle’s Internal Audit section in line with Public Sector Internal Audit Standards ‘engagement planning’ will, where appropriate, include VFM, Best Value criteria in the audit engagement.

### 9.5.3 **Devising the Programmes – The Comhairle Model**

The Comhairle has developed a model for the delivery of Best Value. The model addresses the questions relating to Best Value under the following headings:-

Service Activity Profile – What are we trying to do?

Specifying Service Commitments – To what standard are we trying to do it? What standards do the users want?

Demonstrating Performance – How are we performing against these standards and what is our mechanism to monitor the standards?

Action for Performance Improvement – Are the targets (specific, measurable, action oriented, realistic and timed)?

Gap Analysis – Factors to be addressed to achieve acceptable performance.

Report – To determine whether the service is to be continued in its present form.

Whilst the model above has been used as the cornerstone of the Comhairle's audit programme, the audit could take the form of an audit to the principles of Best Value or even an audit against the four C's.

Under this scheme, the audit will concentrate on:-

Challenge: - Has the review looked fundamentally at how the service is being performed?

Compare: - Have realistic year on year or external comparators been sought?

Consult: - Has the review clearly demonstrated that users have been consulted about the nature of the service and performance?

Compete: - Has the organisation subjected the work to real competition?

### 9.6 **Fraud and Irregularity Investigation**

#### 9.6.1 **Introduction**

It is inevitable that there will be occasions when employees and outside parties will involve themselves in some form of fraudulent activity, e.g. simple fraud, embezzlement, bribery, corruption and the misappropriation of assets. Therefore, it is essential that the auditor must follow proper investigative procedures in the examination of the records as the mis-management of a potential fraud could have serious consequences. The auditor must be familiar with the Fraud and Irregularity Policy in force within the Comhairle and with the guidelines in place for the use of internal auditors.

#### 9.6.2 **Authority to Conduct Investigations**

The authority of internal audit is contained in Financial Regulations 11 and 15 of the Comhairle:

The internal auditors shall have authority to:-

- (a) enter without hindrance, at any time onto any Comhairle premises or land;
- (b) inspect all records, documents and correspondence (both manual and electronic) relating to any matter under examination, including financial and related transactions of the Comhairle;
- (c) seek such explanations as are necessary concerning any matter under examination; and
- (d) insist that any employee of the Comhairle produce cash, stores or any other Comhairle property under his/her control.

Whenever any matter arises which involves or is thought to involve irregularity concerning cash, stores or other property of the Comhairle or any suspected irregularity in the exercise of the functions of the Comhairle the service director concerned shall forthwith notify the Director for Strategic Finance who shall take such steps as he considers necessary by way of investigation and report. The Director for Strategic Finance shall in such a case forthwith notify the Chief Executive and shall inform the Police unless otherwise decided.

The contents of the Financial Regulations should be understood by all Internal Audit staff. Members of Internal Audit should ensure that the Comhairle's "Fraud and Irregularity Procedures" are observed in the course of irregularity audit investigations.

#### 9.6.3 **Standards and Guidelines for the Professional Practice of Internal Auditing**

Reference should be made in the first instance to the professional statements, which clearly establish the role of the internal auditor in instances of fraud and related matters:

- (1) “The internal auditor shall endeavour to reveal any serious defect in systems of internal control which might lead to the perpetration of fraud and must have regard to the possibility of malpractice in areas under examination. The auditor shall be alert to the possibility of corruption and be prepared to inform the appropriate level of management of any justifiable suspicions”. (CIPFA Statements – 1979) & (PSIAS 2013 and 2019).
- (2) “Internal auditors should review measures used to safeguard assets from the various types of losses such as those resulting from theft, fire, improper or illegal activities and exposure to the elements”. (IIA Standard – 1985 & PSIAS 2013 and 2019).

In any investigation where fraudulent activity is suspected it is vital that the auditor understands what constitutes fraud, irregularity and error.

The undernoted definitions may illustrate this matter more clearly: -

- (1) “Fraud encompasses an array of irregularities and illegal acts characterised by intentional deception. It can be perpetrated for the benefit or the detriment of the organisation and by persons outside as well as inside the organisation.
- (2) Fraud designed to benefit the organisation generally produces such a benefit by exploiting an unfair or dishonest advantage that also may deceive an outside party. Perpetrators of such frauds usually benefit indirectly since personal benefit usually accrues when the organisation is aided by that act. Fraud perpetrated to the detriment of the organisation generally is for the direct or indirect benefit of any employee, outside individual or another firm”. (IIA – Statement No 3).

The term “irregularity” refers to financial statements:

“Any intentional financial misrepresentation of financial information”. (Audit Commission).

Errors are not intentional and may be of omission or commission.

Omission: an item is not included therefore the information is incorrect.



Commission: is an error of principle, e.g. revenue expenditure being treated as capital expenditure.

However, where the error is intentional it may be fraudulent.

#### 9.6.4 **Legal Terms and Definitions**

- (1) Fraud this was formally called:  
“Falsehood, fraud and wilful imposition” but in more recent times has been defined as:  
“The bringing about of some definite practical result by means of a false pretence”.  
Simple fraud must contain the following three elements:  
(a) a false pretence  
(b) a definite practical result  
(c) a causal link between the pretence and the result.
- (2) Embezzlement this was formally called:  
“breach of trust and embezzlement” a composite term for what is now regarded as a single crime.  
“Embezzlement” the term suggests  
“the misappropriation of a particular sum”.
- (3) Bribery “Any circumstances where an inducement or reward is offered or given which may influence the action of others”. (Audit Commission)
- (4) Corruption “The offering, giving, soliciting or acceptance of an inducement or reward which may influence the actions taken by the authority, or its members or officers”. (Prevention of Corrupt Practices Act 1896-1916).