

**INTERNAL AUDIT STRATEGY AND OPERATIONAL AUDIT PLAN 2012-13**

**1. Strategy Statement**

The overall Strategy of Internal Audit is:

**“To deliver a risk-based internal audit service focussed on its audit plan in a professional, independent manner, to provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make recommendations to improve it where necessary.”**

The Terms of Reference of Internal Audit are summarised within *Financial Guidance*. These are expanded upon and the measures in place to deliver these set out below.

**2. Statutory Basis for Internal Audit – Our Role**

The requirement for an Internal Audit function for local authorities is implied by section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”. Regulation 6 of the Accounts and Audit Regulations 2003 (as amended) more specifically requires that “a relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices”.

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. (The control environment includes all authority operations, resources, services, and its responsibilities to other bodies).

Internal Audit’s work forms an important part of providing the enhanced assurance required to inform the corporate Annual Governance Statement that the authority must publicly provide. Based on the work carried out by the service over time, and drawing on other sources, the Head of Internal Audit Services is able to provide an opinion as to the appropriate level of assurance that can be given with regard to internal control, governance and risk management.

Internal Audit also has a role in advising managers in relation to issues within its remit, eg appropriate controls in new projects/developments, and forms a key element in helping management to achieve organisational objectives through sound risk management, control and governance.

**2. Delivery of the Audit Service**

The Head of Internal Audit Services is responsible for delivering the audit service in accordance with its Terms of Reference. To ensure that this can be achieved, there are appropriate arrangements for:

- determining and planning the work to be carried out (ie an audit plan based on an assessment of the risk);

- providing the resources required to deliver the audit plan (principally the level of staff and external input), the necessary skills (both in general audit and technical areas) and support facilities (such as IT facilities, equipment and management and administration processes).

The Internal Audit service will be delivered on the basis of an Audit Plan covering 2012/13 (attached as Appendix C). The plan sets out the number of person-days required for Internal Audit to adequately review the areas involved, and indicates the priority level for each planned audit assignment. The over-riding objective of this approach is to ensure that Internal Audit is able to present an annual opinion on the control environment by directing adequate resources based on the relative risks of the operations, resources and services involved, using a formal risk assessment process. The risk assessment process takes account of a range of strategic, corporate, service and operational risks (including those identified through the Risk Management process and by the external auditor) and the views of senior management on these issues. Where resources available are not considered by the Head of Internal Audit Services to be adequate for such an opinion to be provided, this will be reported to the organisation, including the Audit & Governance Committee as necessary. Professional guidance now requires that Internal Audit plans are for a maximum of one year, as to formulate formal plans for longer periods is becoming more and more impractical given increasing change within local government. The annual audit plan is then expected to be responsive and flexible to enable Internal Audit to deal with such change adequately. Internal Audit will comply with these requirements while ensuring that risk assessments still bear in mind the need for a longer term view of audit input to areas of risk.

A number of different audit techniques will be used to deliver the annual audit plan and consequently, the annual audit opinion. These are:

### **Key Financial System Reviews**

The documentation, evaluation and testing of financial, operational and management systems. These reviews provide much of the evidence to support the Head of Internal Audit Services' opinion on the adequacy and effectiveness of the system. External Audit place reliance on the work completed by Internal Audit on the key financial systems to meet their responsibilities.

### **Systems Based Reviews**

The documentation, evaluation and testing of financial, operational and management systems. These reviews provide much of the evidence to support the Head of Internal Audit Services' opinion on the adequacy and effectiveness of the system. They assess how internal controls are operating in a system, thereby forming a view on whether reliance can be placed upon the system. They provide management with assurances that systems are adequately meeting the purposes for which they were designed, provide constructive and practical recommendations to strengthen systems and address identified risks, use findings to feed into an overall opinion on the control framework, thereby fulfilling S151 responsibilities and furnish appropriate evidence for external audit and other review agencies

### **Risk Based Reviews**

While the responsibility for identifying and managing risks belongs to management, one of the key roles of internal audit is to provide assurance that those risks have been properly managed. This involves looking at the way managers identify, assess, respond to and report risks, as well as how well managers monitor how responses to risks are working.

## **Substantive Testing**

These tests are designed to give direct evidence as to the completeness, accuracy and validity of records, account balances, etc.

## **Probity Review**

Typically, such audits will also provide information and evidence about the extent, in practice, of compliance with corporate systems, but will also cover any locally designed systems (or local modifications of corporate systems). Where testing relating to corporate systems is undertaken at sites, the results should be fed back into any work undertaken centrally.

## **Implementation Reviews**

Six months after the finalisation of an audit, an implementation review is completed on the agreed management actions arising from the completed audit to ensure that the agreed actions are implemented. An annual review is completed of the key financial systems, so the implementation review is completed annually.

The Audit Plan balances the following requirements:

- the need to ensure the Audit Plan is completed to a good practice level (currently at least 90% of planned audits remaining required and deliverable in the year);
- the need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control (on which External Audit will place reliance);
- the need to appropriately review other strategic and operational arrangements, taking account of changes in the authority and its services and the risks requiring audit review;
- the need to have uncommitted time available to deal with unplanned issues which may need to be investigated eg allegations of financial or other relevant irregularities, or indeed specific consultancy. (NB there are separate guidelines over circumstances in which Internal Audit may and may not get involved in such investigations or consultancy, and further reference to this is made within the corporate Counter Fraud and Corruption Strategy and guidance);
- to enable positive timely input to assist corporate and service developments.

A joint working arrangement with External Audit will be sought such that Internal Audit resources are used as effectively as possible.

Progress against the audit plan, and the content of the plan itself, will be kept under review by Head of Internal Audit Services in liaison with the Corporate Director - Resources, and through monitoring corporate and service developments. The Audit & Governance Committee will be advised of performance against the audit plan and on relevant indicators under the performance management framework.

Where necessary to ensure an adequate, effective and professional audit service is provided, the Head of Internal Audit Services will buy in, through an appropriate process, resources from external providers to supplement internal resources. Internal Audit will aim to co-operate effectively with the external auditor and ensure that appropriate reliance can be placed on Internal Audit's activities.

The reporting approach for Internal Audit is set out in an *Audit Reporting Protocol* (see Appendix B), and Internal Audit shall comply with this protocol as the most efficient method of delivering the outcomes of its work.

In the delivery of each assignment, Internal Audit will look to make practical recommendations based on the findings of the work and discuss these with management such that management commit to an appropriate action plan for implementing any necessary improvements to the control environment.

### **3. Professional Standards – How we work**

Internal Audit will comply with the Auditing Practices Board's *Guidance for Internal Auditors*, as interpreted by CIPFA's *Code of Practice for Internal Audit in Local Government in the UK*, and staff are expected to comply with any other appropriate professional standards. The Head of Internal Audit Services will ensure that there is an up to date *Audit Manual* in place setting out expected standards for the service, and will monitor compliance with these standards, including in relation to the planning, conduct and reporting of audit assignments. Relevant training will be provided to ensure auditors have the level of skills necessary to undertake their roles.

### **4. Quality**

Internal Audit will deliver a professional, cost effective and competent service which meets customer requirements.

Internal audit will monitor and review the quality measures and performance targets identified and ensure that they are meaningful to customers.

### **5. How we maintain our independence**

Internal Audit is responsible to the Corporate Director - Resources for both line management purposes, and helping to deliver the statutory financial responsibilities. Internal Audit is independent in its planning and operation, however the Head of Internal Audit Services has responsibility for risk management services. Both areas have a key part to play in mitigating the risks facing the Council. There is a possibility that occasionally these responsibilities could, unless specifically addressed, compromise the operational independence of the Internal Audit Service. Therefore, clear separation and division of duty will be established by the Head of Internal Audit Services to ensure that Internal Audit staff who have been involved in dealing with risk management operational matters do not undertake audit reviews within this area.

The Head of Internal Audit Services shall have direct access to the Head of Paid Service, all levels of management and elected members. Internal Auditors shall have the authority to:

- Enter at all reasonable times any Council establishment.
- Have access to all records, documents, information and correspondence relating to any financial and other transaction as considered necessary.
- Evaluate the adequacy and effectiveness of internal controls designed to secure assets and data to assist management in preventing and deterring fraud.
- Request explanations as considered necessary to satisfy themselves as to the correctness of any matter under examination.
- Require any employee of the Council to produce cash, materials or any other Council property in their possession or under their control.

- Access records belonging to third parties, such as contractors or partners, when required and appropriate.

## **6. Working with our customers**

Internal Audit will provide a responsive, professional and informed audit service, which demonstrates value for money.

Internal Audit will be familiar and proactive to all service areas and to recognise their objectives, requirements and limitations.

Internal Audit will promote **equalities, best value, fairness, openness, honesty, involvement and value added** with all our customers and colleagues.

Internal Audit will continue to consult during audits, and through post audit questionnaires and annual customer survey.

## **7. Striving to achieve Excellence**

Internal Audit will continually review its working methods and practices to ensure continuous improvement in its service delivery. This will include optimisation of available and productive time.

Internal Audit will continue to ensure that all audits undertaken where value for money areas are identified that these are noted.

## **8. Audit of and Use of Technology**

Internal Audit will develop the effective use of technology by Internal Audit in the delivery of the service.

Internal Audit will review the provision of computer audit services to ensure that these meet the needs of Internal Audit Services.

## **9. Developing our Employees**

The Head of Internal Audit Services will ensure that employee appraisals occur annually, including the development of personal action plans.

The Head of Internal Audit Services will encourage and support professional continuous personal development.

The Head of Internal Audit Services will develop mechanisms to enable the sharing of training experiences to encourage development of employees and value for money from training.

The Head of Internal Audit Services will ensure effective communications within the team at all levels.

The Head of Internal Audit Services will ensure a team of appropriately skilled and resourced staff, effectively managed and fully involved in the operation of the unit.

## **10. Developing the Service**

The Head of Internal Audit Services will continually review and assess the Internal Audit Service against the CIPFA Code of Audit Practice.

The Head of Internal Audit Services will ensure the Corporate Governance arrangements of the Council reflects the Annual Governance Statement.

The Head of Internal Audit Services will continue to identify relevant training for Members in relation to their role on the Audit & Governance Committee.

The Head of Internal Audit Services will review the role of audit to ascertain ways in which it can add further value to the organisation.

The Head of Internal Audit Services will investigate new or alternative ways of service delivery based on customer feedback and practices in other local authorities and service providers.

The Head of Internal Audit Services will review practices, procedures and standard documentation.

### **Audit Reporting Protocol**

#### **Agreement of Audit Plan**

The audit plan is agreed by Audit & Governance Committee (following Corporate Management Team (CMT) approval and agreement with all Corporate Directors and Assistant Directors individually as part of the consultation process).

#### **Reporting of Individual Audits**

A draft audit report is produced after each audit, and a management response is obtained from the appropriate manager then built into a final report that is issued to the relevant Corporate Director. The Corporate Director – Resources, the Solicitor to the Council (as the Monitoring Officer), and the Chief Executive receive the report Executive Briefings (a summary of the key issues) in each case. A copy of the final audit report will be made available to the Audit & Governance Committee members.

#### **Periodic Reporting**

Audit & Governance Committee is provided with a quarterly summary of key Internal Audit performance areas, details of finalised audit reports in the quarter, the number of recommendations made and accepted in those reports, and the key control issues identified. These quarterly reports also discuss the reviews carried out by Internal Audit, in the relevant quarter, into progress made by management in implementing previously agreed recommendations due to be implemented by that point, and gives Internal Audit's view on the extent to which this is satisfactory. The quarterly report concludes by providing an opinion on the adequacy of the control environment including internal control, risk management and governance.

The Head of Internal Audit Services also meets on at least a half yearly basis with members of the Corporate Management Team to update them on key themes arising from audit work, progress against the audit plan, and other areas of audit work planned, as well as providing senior managers with an opportunity to raise any concerns they may have which may require support from the Internal Audit service.

#### **Annual Reporting**

Over and above the periodic reporting process set out above, Internal Audit also contributes to the Annual Governance Statement to the Council (and thus all members) through the medium of the *Statement of Accounts*. This Statement sets out the responsibility for, assurance provided by and key features of, the system of internal control, as well as a review of its effectiveness and significant control weaknesses highlighted in the year and actions taken or being taken to address them.

## **Process for Ensuring Appropriate Management Response/Escalation**

The planning and initiation of each audit includes agreeing with the relevant Service manager a date for finalisation of the report. This helps to clarify for both parties the timescale for completing the audit and arriving at the agreed action plan to address any areas for improvement.

Where management does not respond to an audit report within a suitable timescale there is a process in place by which the relevant report is then referred to the Director for response. This has been appropriate to address any delays that have arisen to date. A similar approach would be taken initially to tackle any serious lack of implementation of agreed actions. Should this not be successful in future, however, or indeed should it be necessary, there is the potential route to refer a matter in more detail to CMT. If still unresolved the matter would then progress through the usual Performance Management process set out above under **Periodic Reporting** to the Audit & Governance Committee.