



AUDIT AND INVESTIGATIONS UNIT

Internal Audit Strategy 2010 to 2012

INTRODUCTION

The CIPFA Code of Conduct of Internal Audit (2006) requires the council's Head of Audit & Investigations to "produce an audit strategy". This is a high level statement of how the Internal Audit Service will be delivered and developed in accordance with the terms of reference and how it links into the council's organisational objectives and priorities. The purpose of this strategy is to communicate the contribution made by Internal Audit to the council and includes:

- Internal Audit objectives and outcomes.
- How the Head of Audit & Investigations will form and evidence his or her opinion on the control environment to support the Annual Governance Statement.
- How Internal Audit's work will identify and address significant local and national issues and risks.
- How the service will be provided, i.e. internally, externally or a mix of the two.
- The resources and skills required to deliver the strategy.

STRATEGY STATEMENT

The overall strategy is to deliver a risk based audit plan in a professional, independent manner, to provide the council with an opinion on the level of assurance it can place upon the internal control environment, and to make recommendations for improvement when and where it is required.

INTERNAL AUDIT OBJECTIVES & OUTCOMES

The Internal Audit Team forms part of the Audit & Investigations Unit which is based within the Council's Finance & Corporate Resources Service Area. It provides a full internal audit service for the Council.

Internal Audit objectives are defined in more detail in the Internal Audit Terms of Reference. However, the primary objective is to provide assurance on the adequacy and effectiveness of the council's internal control environment to officers and members by giving an independent and objective annual opinion.

In fulfilling these objectives Internal Audit will provide the following services:

- Regular review of key systems to give assurance on the adequacy and effectiveness of the operation of key controls;
- Regularity audits to provide assurance over compliance with rules and regulations;
- Audit of major contracts ;
- Provision of advice and support to management of the Council on a wide range of issues relating to governance and risk;
- Reviews at the request of managers or as identified as a result of other work, which may fall outside the Audit Plan;

- Investigations into suspected fraud and irregularity identified as part of regular internal audit work or when allegations are received;
- An annual report to the Audit Committee, which will provide an assessment of the council's control environment.

Delivery of Internal Audit; Resources & Skills Requirements

The Head of Audit & Investigations is responsible for delivery of the council's Internal Audit function in accordance with its Terms of Reference. To ensure that this can be achieved, there will be appropriate arrangements in place for:

- Determining and planning of the work to be undertaken (i.e. an audit plan based on an assessment of risks);
- The provision of resources required to deliver the audit plan, the necessary skills and support facilities.

The strategy for Internal Audit is to deliver a risk-based Annual Audit Plan. The Plan will set out the number of available audit days and resources split across the council's services and broken down into days. The strategy and plan will be sufficiently flexible to taken account to changes in the council's risks and service needs. A number of contingency days will be built into the plan to enable Internal Audit to respond to emerging risks, and provide ad hoc advice and guidance.

Under the control and direction of the Head of Audit & Investigations, the Internal Audit function will be provided by:

- The in-house Team
- The Contractor (this currently Deloitte Touche Public Sector)

The number of days allocated to the in-house team and contractor will be specified in the annual audit plan.

In order to ensure an adequate and effective internal audit service is maintained, Internal Audit must have adequate budgetary resources to maintain organisational independence and be appropriately staffed in terms of numbers and skills. The Head of Audit & Investigations is responsible for ensuring that resources and skills within Internal Audit are adequate. The Internal Audit function will have staff who are appropriately qualified and have suitable audit experience.

All staff involved in the delivery of Internal Audit will be required to comply with the ethical standards contained in the Code of Practice for Internal Audit in Local Government in the UK 2006. Additionally, Internal Audit staff are bound by the ethical codes of professional bodies with whom they have qualified and members of the in-house team are all are bound by the Council's own Code of Conduct for employees

Audit Planning & Risk Assessment

The CIPFA Code of Practice stipulates that *“the Head of Audit should prepare a risk-based audit plan which should be fixed for a period of no longer than one year. The plan should differentiate between assurance and other work and take account of the adequacy and outcomes of the organisation’s risk management, performance management and other assurance processes”*.

A number of factors will be taken into account when formulating the Annual Internal Audit Plan. These will include the following:

- Inclusion of any key financial systems judged to require audit on an annual basis in order to inform the work of External Audit;
- Consideration of key risk areas across the council, as determined through Internal Audit’s own assessment of risk, as well as liaison with Directors and Assistant Directors across the Service Areas;
- Consideration of key projects and developments taking place across the council. This will include, but will not be limited to: capital projects and other planned improvement & efficiency programmes (this will include systems changes i.e. IT based and manual);
- Local and national issues affecting services as well as statutory and regulatory changes;
- Consideration of areas of known weakness, as determined through previous internal audit work or through past instances of fraud dealt with by the Investigations Team.

The overriding objective of this approach is to ensure that Internal Audit is able to present an opinion on the control environment by directing adequate resources based on the relative risks of the operations, resources and services involved, using a risk assessment process.

Whilst internal audit will adopt a risk based approach to determine relative risks, there will be areas where a cyclical approach will still be required i.e. the audit of key financial systems. Such audits will be undertaken annually, largely to satisfy the requirements of the external auditors who seek to place reliance on the work of internal audit.

Other review work, based on criteria other than risk, may also be built into the plan. These may include grant certification work, Financial Management Standards in Schools (FMSiS) external assessment or other audits.

A contingency allocation will also be built into the annual audit plan for consultancy work or other unplanned reviews. Any changes to previously planned reviews by unplanned work will be justified.

Internal Audit will comply with the *CIPFA Code of Practice for Internal Audit in Local Government in the UK* and all staff, including contractor staff, are expected to comply with this any other appropriate professional standards. Relevant training will be provided to ensure that auditors have the levels of skills necessary to undertake their roles.

Internal Audit will liaise and cooperate with the council's external auditors and ensure that appropriate reliance can be placed on the activities of Internal Audit.

REPORTING

Reporting on audit findings from internal audit work and the recommendations arising will normally be in writing.

Depending on the nature of the report, an assurance opinion will be provided (i.e. Full; Substantial; Limited or No Assurance). Recommendations will be ranked in order of priority (Priority 1; 2 or 3) depending on the relative importance of the audit finding and the associated risks.

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 the implementation of recommendations to ensure improvements to the Council's control environment.

The annual report to the Audit Committee will present an opinion on the adequacy and effectiveness of the organisation's internal control environment. It will also:

- Disclose any qualifications to that opinion together with reasons for the qualifications;
- Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies. This will include the outcome of fraud or corruption related exercises;
- Draw attention to any issues judged relevant to the preparation of the Annual Governance Statement;
- Compare work actually undertaken with the work planned and summarise performance of the internal audit function against its performance measures.
- Comment on compliance with those standards contained within the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

QUALITY ASSURANCE

Internal Audit will deliver a quality service that demonstrably adds value to the Council's risk management, control and governance arrangements. Quality will be assured by adherence to professional auditing standards and close supervision by senior audit staff.

The Council's External Auditors carry out a triennial review of the effectiveness of Internal Audit and seek, annually, to place reliance upon the work undertaken, particularly in respect of key financial systems.