



# Internal Audit Strategy

Subject to annual review by Head of Internal Audit  
Reported to the Audit Committee March 2017

## Appendix 2: Internal Audit Strategy

### Introduction

The Internal Audit Charter sets out the service objective for Internal Audit, which is to provide an annual opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes, designed to deliver its Aims and Priorities.

This Strategy sets out how the service will be delivered and developed in accordance with the Charter and how it links to the delivery of the Council's Aims and Priorities.

### Code of Ethics

All internal auditors working for the Council will comply with:

- the Code of Ethics contained within the UK Public Sector Internal Audit Standards (the Standards) which define:
  - principles that are relevant to the profession and practice of internal auditing
  - rules of conduct that describe behaviour norms expected of internal auditors.
- the ethical standards of any professional body they are members of
- the Nolan Committee's *Seven Principles of Public Life* as defined in the Local Code of Governance.

The four key principles they will adopt are as follows:

- The **integrity** of internal auditors establishes trust and this provides the basis for reliance on their judgement.
- Internal auditors:
  - exhibit the highest level of professional **objectivity** in gathering, evaluating and communicating information about the activity or process being examined
  - make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
- Internal auditors respect the value and ownership of information they receive and do not disclose information (**confidentiality**) without appropriate authority unless there is a legal or professional obligation to do so.
- Internal auditors apply the knowledge, skills and experience (**competency**) needed in the performance of internal auditing services.

Inappropriate disclosure of information or breaches of the Code of Ethics by internal auditors could be a disciplinary offence.

All staff working on the Council's audit will be required to sign an Ethical Governance Statement. In house staff will be required to declare any interests prior to starting an audit and to formally update their statement as part of their six monthly appraisal meetings.

## **Appendix 2: Internal Audit Strategy**

### **Basis for Annual Audit Opinion**

In summary, the audit opinion will be based upon an assessment of:

- the design and operation of the key processes operated by the Council in order to manage its business (e.g. governance arrangements)
- the range of individual opinions arising from risk-based and other audit assignments delivered during the year (e.g. service activities and financial systems)
- an assessment of how robustly actions agreed are implemented and whether this is achieved in a timely manner
- the outcome of any other relevant work undertaken (whether internally or externally) where independence assurance is provided about the operation or performance of a service / system.

### **Audit Approach**

The audit approach is designed to provide the Council with assurance that its risk management, control and governance processes are robust enough to ensure its Aims and Priorities will be delivered.

It also takes into account, where applicable, the need for the Council to gain assurance that any partnership or other agreement to which it is party, is also operating successfully to achieve this end.

The framework used for evaluating the Council's, risk management, control and governance arrangements (as required by the Standards) is set out below.

### **Governance**

Over a suitable period, an assessment will be made of the adequacy of governance process in accomplishing the following objectives:

- promoting appropriate ethics and values within the Council
- ensuring effective organisational performance management and accountability
- communicating risk and control information to appropriate areas of the Council
- co-ordinating the activities of, and communicating information among, the Audit Committee, external and internal auditors and management.

In doing this, Internal Audit will:

- evaluate the design, implementation and effectiveness of ethics-related objectives, programme and activities
- assess whether the information technology governance supports the delivery of the Council's Aims and Priorities.

### **Risk Management**

In determining how effective risk management arrangements are, assessments will be made of whether:

## **Appendix 2: Internal Audit Strategy**

- the Council's Aims and Priorities support and align with its Vision
- significant risks are identified and assessed
- appropriate risk responses are selected that align risks with the Council's risk appetite
- relevant risk information is captured and communicated in a timely manner across the Council, enabling staff, management, Members and the Audit Committee to carry out their responsibilities.

This information will be gathered from many sources including audit assignments undertaken each year.

Risk exposures relating to governance, operations and information systems will also be evaluated regarding the:

- achievement of the Council's strategic Aims and Priorities
- reliability and integrity of financial and operational information
- effectiveness and efficiency of operations and programmes
- safeguarding of assets
- compliance with laws, regulations, policies, procedures and contracts.

Internal Audit will also evaluate the potential for the occurrence of fraud, corruption, bribery, theft or financial irregularities and how the Council manages these risks.

### **Control**

An evaluation will be made of the adequacy, effectiveness and efficiency of controls in responding to risks within the Council's governance, operations and information systems (taking into account the same areas outlined in the bullet points in the risk exposures paragraph above).

### **Types of Assurance Provided**

Audit assignments will apply one or a combination of approaches which include assessing:

- the adequacy of system design
- whether:
  - key controls within a system, process or service are operating effectively
  - outcomes from systems, processes or services are in line with expectations.

Internal Audit will make recommendations for improving any services, systems or processes audited with a view to promoting continuous improvement.

Any knowledge gained from consultancy engagements will be incorporated into the evaluation of the Council's, risk management, control and governance processes.

## Appendix 2: Internal Audit Strategy

### Limitations

Internal Audit will not:

- assume management responsibilities
- control the risks of the Council
- establish and maintain any systems of internal control
- determine operational policies or procedures
- necessarily detect fraud, corruption, bribery, theft or financial irregularities as part of its work as management is responsible for mitigating these risks.

### Risk Assessment

A risk based approach will be used to identify areas for review, which takes into account the risk maturity of the Council. The risk assessment will be based upon professional judgement but be informed by:

- key corporate and service level documents (e.g. plans and risk registers)
- regular discussions with the Chief Executive & Town Clerk and **Deputy Chief Executives (People and Place)**
- at least annual discussions with all **Directors** and periodic discussions with Group Managers as required
- the work of the Good Governance Group
- the audit risk assessment
- horizon scanning to establish potential new risks that may materialise during the year
- outcomes from other relevant, independent audits, inspections or work undertaken.

An audit risk assessment will be maintained which includes all service activities as well as key financial systems and business management processes. This helps identify activities that:

- are 'higher risk' because, for example, they are inherently complex, material or susceptible to fraud but well controlled
- will not be audited unless a specific, one off risk arises or their general risk profiles increases.

It is more important, for higher risk activities, that management obtain periodic, independent evidence that the controls remain appropriate and are consistently applied. A significant control failure in these areas could have a serious impact on the Council's ability to deliver its services and overall Aims and Priorities.

In assessing the level of assurance required and therefore the priority attached to each Council service, account will be taken of:

- financial risk
- public related risks (including satisfaction and reputational)

## Appendix 2: Internal Audit Strategy

- operational risks (including importance in delivering corporate Aims and Priorities)
- legal and political risks
- people and property risks (including health & safety and safeguarding)
- inherent risk (including that of fraud).

The audit risk assessment will be discussed at least annually with the Chief Executive & Town Clerk, **Deputy Chief Executives (People and Place)** and **Directors**. An annual assessment will be made with the **Director** of Finance & Resources as to whether any assurance is required regarding key financial systems to support the production of the Statement of Accounts.

Internal Audit will decide which action plans to revisit on a risk basis. Where it is determined that further work is required to ensure agreed actions have been properly implemented, this will involve re-testing to ensure:

- this is the case
- the strengthened control arrangements are firmly established in the day to day running of the service.

### Assurance Framework

Before producing the Audit Plan, an assessment will be made of the evidence already available regarding the:

- operation of individual services and the management of their related risks
- Council's governance arrangements.

This evidence will be recorded as part of the audit risk assessment documentation. As part of planning the audit, the value of this evidence will be evaluated by assessing:

- what risks and controls such assurance covers
- at what stage in the process it takes effect (see Three Lines of Defence model outlined below) and therefore how quickly it would mitigate the risk
- how reliable it is, which is likely to include some re-performance work to confirm the validity of the findings before it is relied upon for audit purposes.

### Coordinating the Three Lines of Defence

First Line of Defence	Second Line of Defence	Third Line of Defence
Risk Owners / Managers	Risk Control and Compliance	Risk Assurance
Operational management	Corporate management type functions	Internal Audit
Delivers the service	Limited independence	Greater independence
Reports through the normal line management structure	Reports primarily to management	Reports to the Audit Committee

## Appendix 2: Internal Audit Strategy

### Audit Plan

As at March 2017, the combined service still has four vacancies out of nine auditor posts, one of which is being covered by a long term but rolling agency appointment. A new member of staff will start early April 2017 and another won't join the team until July 2017. Therefore, 2017/18 will be another transitional year for the team.

The service will remain heavily reliant on external contractors during 2017/18, which will reduce the number of days that can be delivered from each Council's internal audit budget. It is difficult at this point to predict by how much, as it will depend on when further appointments are made.

In the interim, a staff resource needs assessment will be maintained for the in-house resource to calculate the capacity of this element of the service. A view will then be taken about external resources required to:

- cover vacancies
- deliver audits that require specialist skills.

A programme of audits will be agreed with senior management based on the assessment of risk outlined above. The Audit Plan will:

- mainly focus on:
  - risk based reviews that assess how well core services are being delivered
  - **revisiting previous audit to ensure that agreed action plans have been properly implemented, so the control are fully embedded in the day to day operations of the service or process.**
- include time for:
  - some work on:
    - the Council's arrangements for managing its business
    - key financial systems and grant claims
    - providing advice and support.
  - audit planning, managing audit plan delivery which includes managing contractors and reporting.

**Going forward, the remaining schools will only be audited at the Council's request, should there be concerns about their performance.**

**The Audit Plan, attached at Appendix 2a, sets out the work planned at this stage plus a contingency, front loading contractor work wherever possible. A list of potential audits will be maintained and reviewed in August 2017, to determine what will be added into the Audit Plan, once the number of days available can be more accurately calculated.**

It reflects the results of the risk assessment and the information gathered about the Council's assurance framework. It shows how the work will provide evidence that risks relating to the delivery of the corporate Aims and Priorities are being managed effectively. **Appendix 2b** maps audit work against corporate risks.

## Appendix 2: Internal Audit Strategy

A contingency budget has been built into the Audit Plan. Nevertheless any risks that arise during the year will be considered against the risk profile of the work already planned before a review is deleted and replaced by a new audit.

Consultancy engagements, if accepted in year, will also be included in the Audit Plan.

Changes to the Audit Plan will be reported to senior management for review and the Audit Committee for approval.

Fraud and corruption risks will be considered when determining the focus of each relevant audit. Any investigations into fraud, corruption, bribery, theft or financial irregularities that arise will be undertaken by the Counter Fraud and Investigation Directorate (the Directorate) **under the Service Level Agreement the Council has with Thurrock Council**. The Internal Audit team will work closely with the Directorate to ensure an effective and integrated service is provided.

### Resources

Southend-on-Sea Borough Council and Castle Point Borough Council have signed an Internal Audit Joint Working Agreement to use their combined internal audit resources to provide a service to both councils **and others**.

**Following the external service review, a pre-dominantly in-house resourced service will be provided** supplemented as required, by additional resources obtained via framework contracts with external suppliers. This service is managed by a jointly appointed and shared Head of Internal Audit.

**In principle, once the in-house team has been recreated**, the on-going strategy will be to continue with this mixed economy approach to resourcing the service. This is as long as costs remain competitive, productivity is high and quality standards are met, as measured by delivery of the agreed performance indicators.

Work will be allocated to staff with the appropriate skills, experience and competence to complete it. Where the Head of Internal Audit is responsible for an area being audited, arrangements will be made for the work to be **supervised and reviewed** by an appropriately qualified person from outside the service.

**Up to date job profiles will be maintained reflecting modern professional requirements. They were last revised and job evaluated (by Southend-on-Sea Borough Council) in November 2016.**

**The service will be mindful about allowing the staff to audit the same area continually, as this might lead to over-familiarity and complacency that could influence objectivity.**

### Training and Development

Staff development needs will be continually assessed and fed into the service's training plan to ensure that appropriate skills are available to deliver the Strategy. Consideration will also be given to the need for staff to meet mandatory continued professional development requirements.



## Appendix 2: Internal Audit Strategy

Staff will maintain individual training logs that satisfy relevant professional standards. These will be reviewed by line managers at least every six months as part of the corporate performance appraisal process.

Opportunities to purchase tailored training with other organisations will continue to be explored.

### Service Performance Indicators

**When the service is more fully resourced and settled, the suite of indicators that will be used to measure performance will** cover economy, staff productivity, efficiency and effectiveness and consist of:

- delivering 100% of the Audit Plan by the 30 April
- issuing draft reports to the service within 15 days of the final meeting to discuss the findings from the fieldwork
- delivering 75% of total available staff days on delivering the Audit Plan
- losing less than five days per full time equivalent due to sickness absence
- operating in the manner set out in the Standards at team and individual audit level as evidenced by the annual internal and five yearly external performance assessments
- **completing a representative sample of stakeholder surveys that assess compliance with element of the Standards:**
  - **reporting the results regularly to the Audit Committee, with actions to be taken to improve performance, where required**
  - **reflecting the results in the annual performance assessment reported upon in the Head of Internal Audit Annual Report.**
- discharging the duties set out in the CIPFA Statement on the Head of Internal Audit role, wherever possible
- demonstrating periodically that the cost of the service is competitive.

**For 2017/18, performance targets will consist of:**

- **delivering 100% of the Audit Plan by the June Audit Committee**
- **those relating to sickness and stakeholder surveys**
- **delivering an agreed % of total available staff day days on delivering the Audit Plan (reduced to take account of recruiting and training new staff as well as the time spent preparing for the independent external review). This will be calculated once:**
  - **start dates have been agreed for the new appointments**
  - **an assessment can be made about the time commitment the external assessment will require.**

Performance against targets set will be reported to senior management and the Audit Committee each quarter.

## Appendix 2: Internal Audit Strategy

### Service Risk Register

Internal Audit will maintain a service risk register that supports the delivery of this Strategy. This will be reviewed and reported upon periodically in the quarterly performance reports to management.

### Delivering Audit Assignments

An audit manual will be maintained that guides staff in the performance of their duties. It will be reviewed regularly to reflect changes in working practices and standards. This will ensure that auditors obtain and record sufficient evidence to support their conclusions, professional judgements and recommendations. The standard of files will be such that an experienced auditor, with no previous connection with the audit, will be able to ascertain what work was performed, re-perform it if necessary and support the conclusions reached.

The service will adhere to the Council's clear desk policy with regard to client information and audit files.

Audit files will be retained in accordance with the Council's file retention and disposal policy.

Generally audit files and records are confidential. They will only be shared with the service being audited and external audit. If wider distribution is required, permission must first be obtained from the Head of Internal Audit.

### How We Will Work With You

**Appendix 2c** sets out how the service will work with key officers and groups within the Council, which includes details of who will receive key documents and reports.

Internal Audit will liaise with senior management regarding the timing of individual assignments wherever possible.

Terms of Reference and Draft Reports will be discussed and agreed to be factually correct with Group Managers and **Directors** before being finalised with the **Chief Executive & Town Clerk / Deputy Chief Executives (People and Place)**.

Distribution lists are contained on the front of each report and are agreed in principle, with senior management.

Internal Audit reports contain a disclosure stating they should not be shared with anyone else without the permission of the Head of Internal Audit.

Audit reports will generally be designed to:

- give an opinion on the risk and controls in the area under review
- set out the issues arising, detail the action management is going to take to address them, **identify who is accountable for each action** and note appropriate delivery dates.

Those weaknesses giving rise to significant risks that are not agreed will be brought to the attention of senior management and if necessary the Audit Committee.

## **Appendix 2: Internal Audit Strategy**

The Head of Internal Audit Annual Report will include:

- an annual opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes
- a summary of work completed
- a statement of conformance with the Standards and the results of the Quality Assurance and Improvement Programme
- a comparison of actual work completed compared to what was planned as well as performance against its targets
- issues relevant to the preparation of the Annual Governance Statement
- progress in dealing with issues arising from any external performance assessment.

### **Audit Committee**

To support the work of the Audit Committee, Internal Audit will:

- **develop agendas** and attend meetings
- facilitate the Committee's review of its own remit and effectiveness, if required
- help identify any training needs and work with others to ensure that these are met.

### **External Audit**

Internal Audit will maintain an appropriate working relationship with the Council's external auditors, sharing documentation and reports as required to support the audit of the Statement of Accounts and any other work undertaken.

### **Partners**

Internal Audit will continue to explore opportunities to work effectively with internal audit services of partner organisations where this is beneficial. It will continue to look to make best use of joint audit resources as well as provide opportunities to share learning and good practice.

### **Quality Assurance and Improvement Programme**

The service will maintain a quality assurance and improvement programme that covers all aspects of internal audit activity. The internal assessment will reflect feedback obtained from:

- ongoing supervision and review of individual assignments
- staff performance assessment forms covering blocks of work as well as stakeholder surveys
- regular monitoring of service delivery via agreed performance targets
- an annual self assessment of compliance with relevant professional standards

## **Appendix 2: Internal Audit Strategy**

- a periodic assessment of compliance with the CIPFA statement on the Role of the Head of Internal Audit in Local Government, if completed.

Opportunities for peer reviews or independent challenge of the internal self assessment will continue to be proactively explored.

**The combined Internal Audit Service is required to have an external assessment of its compliance with the Standards, at least every five years by a qualified, independent assessor from outside the organisation. The Head of Internal Audit must (as per the Standards section 1312):**

- **discuss with the Audit Committee the:**
  - form of external assessment (e.g. full external assessment or self assessment with independent validation)
  - qualification and independence of the external assessor including any potential conflict of interest risks.
- **agree the scope of the external assessment with:**
  - **an appropriate sponsor (e.g. the Chair of the Audit Committee, the Chief Executive and / or Section 151 Officer)**
  - **the external assessor.**

**The results of this assessment will be shared with both councils and South Essex Homes.**

The results of the quality assurance programme will be reported upon in the Head of Internal Audit's Annual Report. Progress made against any improvement plans will be reported to senior management and the Audit Committee.

### **Appendices**

- **Appendix 2a: Internal Audit Plan for 2017/18**
- **Appendix 2b: Audits assurance linked to corporate risks**
- **Appendix 2c: How We Will Work With You Statement**