



# **INTERNAL AUDIT STRATEGY 2011/12**

PRODUCED BY THE HEAD OF INTERNAL AUDIT  
SUBJECT TO ANNUAL REVIEW

APPROVED BY:

- SBC: CORPORATE MANAGEMENT TEAM: MARCH 2011
- SBC: AUDIT COMMITTEE: MARCH 2011
- CPBC: EXECUTIVE MANAGEMENT TEAM: MARCH 2011
- CPBC: AUDIT COMMITTEE: MARCH 2011

## INTERNAL AUDIT: STRATEGY 2011/12

### OVERALL SERVICE OBJECTIVE

The key objective for Internal Audit is to provide an annual opinion on the adequacy and effectiveness of each organisation's systems of internal control.

In order to do this, Internal Audit will plan to deliver sufficient work across each organisation to enable this opinion to be given. The opinion will take into account the range of risks and controls that has to be encompassed in the respective Governance Statement as well as provide assurance in respect of a range of:

- risks and risk priorities
- activities in which the risks arise
- locations in which activities giving rise to risks are undertaken.

### BASIS FOR ANNUAL AUDIT OPINION

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

- the design and operation of the corporate assurance framework which consists of the organisation's key business processes as set out in the Local Code of Governance
- the range of individual opinions arising from risk-based audit assignments delivered during the year
- an assessment of how robustly recommendations agreed are implemented and whether this is achieved in a timely manner
- the outcome of any other relevant audit or inspection type work undertaken (where independence assurance is provided).

### AUDIT APPROACH

Internal Audit delivers its Terms of Reference and therefore assists management to achieve their objectives by adopting the audit approach outlined in **Appendix 1**.

In delivering this, Internal Audit assesses and advises on the adequacy of internal controls in relation to:

- risks associated with service activities (including those relating to fraud and corruption)
- compliance with legislation, policies and other similar corporate governance requirements
- adequacy, integrity and reliability of management information
- value for money in terms of economy, efficiency and effectiveness
- safeguarding of business assets and employees
- levels of undetected errors or irregularities.

Internal Audit does not:

- assume management responsibilities
- control the risks of the Council

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- establish and maintain systems of internal control
- determine operational policies or procedures or
- detect fraud and irregularity as management is responsible for mitigating this risk.

### RISK BASED APPROACH

A risk based approach is used to identify areas for review and the frequency of cover.

The risk assessment is based on professional judgement but will be informed by:

- key corporate and service level documents (e.g. plans and risk registers)
- the outcomes of other independent audits or inspections
- regular discussions with Chief Executives as well as Directors and their management teams including the Section 151 Officer
- audit risk assessments.

Audit risk assessments will be maintained to support general audit, information technology and anti fraud and corruption work. They will:

- cover all service activities but exclude certain areas of work that require annual review
- be reviewed twice a year with relevant officers to take account of any significant changes in the profile.

In producing the audit risk assessment consideration is given to:

- **Corporate importance:** This considers the effect on the Council of any inability to achieve management defined service objectives should the system or process fail. It also takes into account the financial exposure or materiality of the area. The consequential impact, either directly or indirectly, on other systems and processes is also relevant. Overall it is a measure of the extent to which the Council depends on the correct running of the system to achieve its strategic objectives
- **Corporate sensitivity:** This takes into account the sensitivity and confidentiality of the information processed, or service delivered by the system, or decisions influenced by the output. It also assesses any legal and regulatory compliance requirements. The measure should also reflect any management concerns and sensitivities.
- **Inherent risk:** This considers the inherent risk of the system, service, process or related assets to error, loss, irregularity, inefficiency, illegality or failure. The particular service sector, nature of operations, the pace of change and the relative complexity of the system will also affect the level on inherent risk or error. The inherent vulnerability of a system, service or process can not be altered only mitigated by the quality of controls in place.

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- **Control risk:** This assesses the level of control risk based upon the results of past audits of the control environment under review. It also takes into account the operating history and condition of systems and processes as well as knowledge of management controls to minimise exposure to risk.

The results of the risk assessment will be reflected in the audit plan that reported to the senior management team and the Audit Committee.

### NEEDS ASSESSMENT

The Head of Internal Audit is required to report on whether staff resources are adequate to deliver sufficient work to enable an opinion to be given on the systems of internal control.

In determining this, available staff time has to be reduced to take account of non-audit activities (e.g. support provided for corporate activities) and other team management activities (e.g. team meetings, appraisals, training etc). The balance is the time available to commit to delivering audit assignments.

A needs assessment will be maintained, reviewed regularly and reported upon to the senior management team and the Audit Committee.

### AUDIT PLAN

An indicative audit plan will then be produced using the audit approach and risk assessment, taking the following factors into account:

- minimal allowance will be made for ad hoc investigations and if this is exceeded, then planned work will be deleted or deferred
- fraud and corruption risks will be considered when determining the budget for each job to assess whether is a need for additional work in the area
- amendments required to the plan due to changes in the risk profile will be accommodated by deleting or deferring planned work as there is no contingency budget; and
- time will be included to audit grant claims Internal Audit is currently aware of although this work may only be undertaken if funds are available to purchase additional staff resources.

In compiling the plan, work due to be completed by other agencies will also be considered. Close liaison will be maintained with external audit to ensure that maximum reliance can be placed on Internal Audit work.

The days required to deliver the audit approach over a four-year cycle will then be compared to the estimated staff resources available. Internal Audit will then report to the senior management team and the Audit Committee on whether the service is adequately resourced.

The Outline Audit Plan for 2011/12 is attached at **Appendix 2**.

### STAFF RESOURCES

The Internal Audit Service will predominantly be provided by an in house team. Castle Point Borough Council pay Southend-on-Sea Borough Council for a Head of Internal Audit service. A Service Level Agreement has also been produced outlining the basis for the pooled staffing arrangement being operated between the two Councils. In essence, each Council will agree an annual audit plan commensurate with the staff resources it inputs into the arrangement.

A three-year framework contract was let in December 2007, for general, specialist and computer audit services in conjunction with Castle Point Borough Council and Basildon District Council. It is used to provide technical audit skills that the joint team don't have and cover shortfalls in resources if budgets allow. This has been extended for a year whilst further consideration is given as to what is required from such an arrangement. The intention is to retain a framework contract for internal audit services in the future. In the mean time, other options are being explored for accessing specialist skills.

In 2011/12, in house staff will be trained to enable them to deliver a greater proportion of the computer audit work required. So the IT element of the audit plan this year will provided by a combination of in house and bought in resources.

Therefore the strategy will be to continue with this mixed economy approach to resourcing the service as long as costs remain competitive, productivity is high and quality standards are met as measured by the agreed performance indicators.

The key specialisms required to enable the service to deliver the strategy have been identified and allocated to individual team members who take the lead in these areas. They primarily cover fraud and corruption, partnerships, schools, contracts and now IT.

Opportunities for joint working / realising further efficiency savings with other internal audit services of significant partners will continue to be explored.

Staff will not be allowed to:

- audit in an area where they have previously had operational responsibility for at least a year or until there is no risk of them auditing their own work
- audit the same area for more than three consecutive years thus preventing over-familiarity and complacency that could influence objectivity.

### SERVICE PERFORMANCE INDICATORS

Performance indicators will be established covering economy, efficiency and effectiveness. For 2011/12, the proposed indicators are attached at **Appendix 3**. Performance against targets set will be reported to the senior management team and Audit Committee each quarter.

Clients will be requested to complete a client satisfaction survey at the conclusion of each audit. The results of these will be analysed each quarter so that themes can be identified and action taken to improve the service where required.

### **SERVICE RISK REGISTER**

Internal Audit will maintain a service risk register that supports the delivery of this strategy. This will be reviewed at least quarterly although changes to the risk profile will be considered at monthly team meetings.

### **HOW WE WILL WORK WITH YOU**

In order to ensure that the work undertaken by Internal Audit is properly focused on providing assurance on the highest risk activities, it is critical that services are involved in shaping the audit plan. It is also important that reporting lines are timely and appropriate.

Therefore a summary of the reporting lines, relationships and outputs is outlined in **Appendix 4, Internal Audit: How we will work with you.**

With regards to individual audit assignments:

- terms of reference will be discussed and agreed with Heads of Service / Service Managers and Directors before work commences
- ongoing feedback will be provided during audit
- draft reports will be discussed with Heads of Service / Service Managers
- final drafts will be signed off by Directors as well as Heads of Service / Service Managers before final copies are distributed.

Potential problem areas will be highlighted immediately to management. Opportunities will also be taken to share good practice.

Recommendations due for action will be followed up on a quarterly basis to verify their implementation. High or medium recommendations not implemented by the due date will be reported to the senior management team and the Audit Committee with an explanation as to why.

If required, a protocol will be agreed with service departments as to the roles, responsibilities and expectations in this area to ensure recommendations are implemented appropriately, by the due date.

### **INDEPENDENCE AND CONFIDENTIALITY**

In each sector, auditors are required to comply with a set of professional standards. For the Councils' teams, these are set out in CIPFA's Code of Practice for Internal Audit in Local Government in the UK 2006 in which:

- standard 2 covers audit independence (refer to Terms of Reference)
- standard 3 covers ethics for internal auditors

Internal Audit will comply with these standards in delivering its work.

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With regard to confidentiality, the key requirements are that:

- Internal auditors must safeguard the information they receive in carrying out their duties. Any information gained in the course of audit work should remain confidential, without limiting or preventing Internal Audit from reporting within the organisation as appropriate. There must not be any unauthorised disclosure of information unless there is a legal or professional requirement to do so. Inappropriate disclosure of information by internal auditors could be a disciplinary offence
- confidential information gained in the course of audit duties should only be shared with bona fide recipients and must not be used to effect personal benefit.

In order to ensure that audit staff are aware of these requirements and agree to be bound by them, the Councils' audit teams sign an ethical governance statement annually. They are also reminded to declare any interests at each monthly team meeting.

Distribution lists are agreed for each job with the relevant Directors / Heads of Service / Group Managers. Internal Audit reports contain a disclosure stating reports should not be shared with anyone else without the permission of the Head of Internal Audit and the relevant Director.

Where Internal Audit provide a service to a third party, the results of this work will only be reported to the body concerned.

### **AUDIT FILES**

A clear desk policy will be maintained with regard to client information and audit files. All such information will be locked away when not in use.

Audit files will be retained for three years except those relating to investigations where criminal proceedings are pursued which will be retained as required by the Criminal Proceedings Investigation Act 1996.

Generally audit files and records are confidential. They will only be shared with the service being audited and external audit if permission for wider distribution is obtained from the relevant Director and the Head of Internal Audit. The main exception to this is if information is requested under the policies covering the Freedom of Information Act 2000 and Data Protection Act 1998.

### **TRAINING AND DEVELOPMENT**

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

Staff maintain individual training logs that satisfy relevant professional institute standards. These are 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.

### QUALITY ASSURANCE

As required by the Accounts and Audit (Amendment) Regulations 2006 an annual review of the effectiveness of internal audit will be undertaken. This will involve assessing compliance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Internal Audit in Local Government in the UK (2006). This year, this will include an assessment against the CIPFA statement on the Role of the Head of Internal Audit in Local Government. The results of this review will be reported to the senior management team and Audit Committee.

Generally this will be delivered through a process of self-assessment and independent challenge. Opportunities for peer reviews will continue to be proactively explored.

Every few years, good practice suggests that a completely independent external review is undertaken. Therefore in 2010, the Head of Internal Audit's 2009/10 assessment was reviewed by PKF, the Council's external auditors.

In general, each member of staff will have one audit file independently reviewed every two years in both the audit and supervisor role (where relevant) unless it is deemed that a more regular review is required through the normal performance management process. This is to ensure compliance with the audit approach and provide assurance that the required quality standards are being met.

Each audit assignment is subject to ongoing supervision and review. A performance assessment form is completed at the end of each audit. This is used as evidence to support the corporate appraisal process.

### AUDIT COMMITTEE

To support the work of the Audit Committee, Internal Audit continues to:

- contribute to the development of agendas
- facilitate the Committee review of its own remit and effectiveness
- help identify any training needs and work with others to ensure that these are met.

### AUDITING WITH PARTNERS

Internal Audit has been influential in the establishment of a Cross Partner Internal Audit Working Group (the Group) with significant public sector partners (significant partners).

The purpose of the Group is to:

- contribute to the assurances available to a local strategic partnership (LSP) when assessing and reporting upon the effectiveness of its systems of internal control (overall governance arrangements)
- explore opportunities to work together to deliver or provide consistent assurance over the effectiveness of individual partners governance arrangements to each other or a local strategic partnership
- identify service areas where a cross partner internal audit review would add value by:



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- identifying potential to improve value for money
- providing assurance regarding service risks that go across organisational boundaries.

It will continue to look to make better use of joint audit resources as well as provide opportunities to share learning and good practice.

### **APPENDICES**

- **APPENDIX 1: AUDIT APPROACH**
- **APPENDIX 2: AUDIT PLAN FOR 2011/12**
- **APPENDIX 3: PERFORMANCE INDICATORS FOR 2011/12**
- **APPENDIX 4: HOW INTERNAL AUDIT WILL WORK WITH YOU**