



# **INTERNAL AUDIT STRATEGY 2012/13**

Produced by the Head of Internal Audit and subject to annual review

- CORPORATE MANAGEMENT TEAM: MARCH 2012
- AUDIT COMMITTEE: 28 MARCH 2012

### OVERALL SERVICE OBJECTIVE

***The key objective for Internal Audit is to provide an independent and objective annual opinion on the adequacy and effectiveness of the Council's system of internal control in enabling it to achieve its objectives.***

As outlined in Internal Audit's Terms of Reference, the system of internal control equates to the totality of the way the Council designs, implements, tests and modifies controls in specific systems, to provide assurance at a corporate level that they are operating efficiently and effectively.

Internal control in this context also includes the Council's governance arrangements. The terms internal control and governance are defined in the appendix to the Terms of Reference.

### BASIS FOR ANNUAL AUDIT OPINION

The Head of Internal Audit's audit opinion will be formed having evaluated the assurance obtained from work undertaken to assess:

- whether the Council's key principles, values and business management processes (as set out in the Local Code of Governance) are fit for purpose and being consistently applied by all services throughout the year
- whether the key controls within the main financial systems are operating, consistently, throughout the year
- how well system or process risks relating to the delivery of services, procurement, contracts or projects are being controlled
- how robustly recommendations agreed are being implemented and whether this is achieved in a timely manner.

The outcome of any other relevant audit, inspection or investigative type work will also be taken into account, where an independent view is given about the adequacy and effectiveness of some aspect of the control environment.

### RISK BASED PLANNING

A risk based approach will be used to identify areas for review and the frequency of cover. In determining the extent of the work required, consideration will be given as to how:

- embedded the key strategic business management processes are, thus providing ongoing assurance that the Council is managing itself effectively (**Appendix 1** sets out the *Three Lines of Defence Model*), in particular those relating to risk and performance management
- good management and services are at accurately identifying and then managing risk in relation to the services being delivered (i.e. the extent to which service plans and risk registers can be relied upon).

This will then be supplemented by:

- regular discussions with the Chief Executive, Corporate Directors and Heads of Service (including the Section 151 Officer) and their management teams

## INTERNAL AUDIT: STRATEGY 2012/13

- an assessment of the assurance to be gained from other independent audits, inspections or investigations undertaken
- horizon scanning to establish potential new risks that may materialise during the year.

An audit risk assessment will also be maintained as this helps to identify activities that may not appear on risk registers but from an audit view point, are 'high risk' activities e.g. those processes that are inherently complex, are material in terms of spend but well controlled. It is important that regular assurance is provided that the control framework in these areas remains appropriate and is consistently applied as the impact of a significant control failure could potentially be catastrophic.

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
- **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.

In order to compile the plan, there must be a clear understanding of the Council's functions and the scale and breadth of potential audit areas. In summary, the range of activities covered by the risk assessment includes:

- a budget of:
  - estimated expenditure in 2012/13 of £439m
  - estimated income in 2012/13 of £292m
  - capital programme for 2012/13 to 2015/16 of £129m comprising of approximately 200 projects
- 120 service areas across four directorates
- 46 schools

## INTERNAL AUDIT: STRATEGY 2012/13

- over 5,000 employees.

The results of the risk assessment will be discussed with services and reflected in the audit plan that is reported to the Corporate Management Team and the Audit Committee.

### NEEDS ASSESSMENT

The Head of Internal Audit is required to report on whether staff resources are sufficient to deliver the work required to enable an audit opinion to be given on the adequacy and effectiveness of the system of internal control each year.

Therefore a needs assessment is maintained that takes the total days available in the year (i.e. 260) per member of staff and then calculates how much of that time can be allocated to delivering audit assignments. In doing this, allowance is made for:

- non-audit activities (e.g. support provided for corporate activities including the Audit Committee)
- team management activities (e.g. team meetings, appraisals, training).

An assumption is also made that the team will have a full time Business and Audit Support Officer in post when calculating the available audit days each year.

### AUDIT APPROACH

Having established the Council's audit risk profile and the resources available, an audit approach will be produced. For 2012/13, this is outlined in **Appendix 2**.

In order for the Head of Internal Audit to be able to give an opinion on the adequacy of the system of internal control, some audit work is required in relation to:

- business management processes
- financial systems
- high risk one off projects / procurements / contracts
- any service / process that is subject to significant change
- any new activities being undertaken.

High risk service activities should be audited in some form every two to three years. Medium risk activities will be audited if resources are available.

### AUDIT PLAN

The Head of Internal Audit will plan to deliver sufficient, evidenced based work each year so that an audit opinion can be given.

An indicative audit plan will take account of the risk assessment, audit approach, potential assurance available from other, independent sources and the resources available compared to those required.

The Outline Audit Plan for 2012/13 is attached at **Appendix 3**. The main assumptions made in compiling the plan are that:

## INTERNAL AUDIT: STRATEGY 2012/13

- the team maintains a full time Business and Audit Support Officer
- once the minimal budget for ad hoc work has been used, any additional work required will be funded by deleting planning work
- planned audits may change during the year should new issues arise or the risk profile in an area where coverage is proposed, changes in year.

When scoping out audit terms of reference, consideration will be given to potential fraud and corruption risks and whether specific work is required to ensure they are mitigated in these areas.

### STAFF RESOURCES

The Internal Audit service will predominantly be provided by an in house team. Castle Point Borough Council share a Head of Internal Audit resource with Southend-on-Sea Borough Council through a Head of Internal Audit Partnership Agreement whereby Southend is the employing authority. A Service Level Agreement has also been agreed setting out the basis for a 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, then staff will be used flexibly to deliver the work.

Seven organisations have signed up to a three-year framework contract with an external supplier. This was subject to tender and commenced in January 2012 covering general, computer and specialist audit services (including fraud and corruption work). It will be used to provide technical audit skills that the joint team don't have and cover shortfalls in resources if budgets allow.

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.

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.

### TRAINING AND DEVELOPMENT

Internal Auditors are required to undertake a programme of continued professional development to maintain and develop their competence.

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.

## INTERNAL AUDIT: STRATEGY 2012/13

Staff maintain individual training logs that satisfy relevant professional 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.

### SERVICE PERFORMANCE INDICATORS

Performance indicators will be established covering economy, efficiency and effectiveness. For this year, the proposed indicators are attached at **Appendix 4**. Performance against targets set will be reported to the Corporate 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.

A short survey will be conducted annually to assess client satisfaction with the overall Internal Audit service provided. Key messages from this will also be taken into account in developing the service going forward.

### 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 team and Audit Manager meetings.

## HOW WE WILL WORK WITH YOU

### WORKING WITH OFFICERS

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 5, 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 Corporate Directors before work commences
- work is planned to be completed wherever possible at a time that best suits the relevant service
- ongoing feedback will be provided during audit so that potential problem areas are highlighted immediately to management
- opportunities will also be taken to share good practice identified during a review
- draft reports will be discussed with Heads of Service / Service Managers

## INTERNAL AUDIT: STRATEGY 2012/13

- final drafts will be signed off by Corporate Directors as well as Heads of Service / Service Managers before final copies are distributed.

Internal Audit will verify that all recommendations contained in a report have been actioned once all the implementation dates have past. High (priority 1) or medium (priority 2) recommendations not implemented at this point in time will be reported to the Corporate Management Team and the Audit Committee with an explanation as to why as part of the normal quarterly reporting cycle.

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.

### COMMUNICATING WITH MEMBERS

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

- attend its meetings and contributes to the development of agendas
- facilitate the Committee's review of its own remit and effectiveness
- draft its annual report
- help identify any training needs and work with others to ensure that these are met.

Internal Audit communicates with other members in the following ways:

- All final reports are distributed to the Leader of the Council, the Portfolio Holder and the Chairman of the Audit Committee
- Staff may attend other member groups / committees in relation to specific areas of work e.g. supporting the development of the Health and Wellbeing Board's governance arrangements
- Some training events regarding audit, audit committee or governance type activities are open to all members.

The team will also deal with any issues raised directly by members as and when this occurs.

### WORKING WITH EXTERNAL AUDIT

External Auditors' principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Audit Commission Code of Audit Practice 2010, Local Government Bodies (the Code), the audited body's:

- financial statements; and
- arrangements for securing economy, efficiency and effectiveness in its use of resources.

They also certify grants provided by various government departments using pre-agreed work programmes.

Under the Audit Commission Act 1998, Section 6, an external auditor has a right of access at all reasonable times to every document relating to a body subject to audit which appears to him necessary for the purposes of his functions under this Act.

## INTERNAL AUDIT: STRATEGY 2012/13

An external auditor may also:

- require any officer or member of a body subject to audit to give him such information or explanation as he thinks necessary for the purposes of his functions under this Act
- if he thinks it necessary, require the officer or member to attend before him in person to give the information or explanation.

Although External Audit's objectives are much narrower than Internal Audit's, it is important that the two sets of auditors work closely together. The main area where External Audit will seek to rely on Internal Audit's work is in relation to the key financial systems. Internal Audit will work with External Audit to plan and then co-ordinate the delivery of this work as well as share these audit files with them.

### AUDITING WITH PARTNERS

Where assurance is required from other organisations about the adequacy of their controls in relation to a system, process or activity, the Head of Internal Audit will assess the basis for the assurance and its adequacy, before determining whether additional work is required. Where the Head of Internal Audit is asked to provide assurance to others on the Council's operations, due consideration will be to clearly defining the scope and purpose of this.

Internal Audit will continue to explore opportunities to work with other public sector organisations with a view to:

- delivering or providing consistent assurance over the effectiveness of individual partners governance arrangements to each other or a local strategic partnership (e.g. the Health and Wellbeing Board)
- identifying service areas where a cross partner internal audit review would add value by:
  - identifying potential to improve value for money
  - providing assurance regarding service risks that go across organisational boundaries
  - sharing learning and good practice.

### QUALITY ASSURANCE

As required by the Accounts and Audit (England) Regulations 2011 (the Regulations) Section 6 an annual review of the effectiveness of internal audit will be undertaken. This will involve assessing compliance with the requirements of the CIPFA: Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code). Consideration should also be given to the level of compliance with the good practice guidance outlined in the CIPFA: Statement on the Role of the Head of Internal Audit in public service organisations 2010 (the Statement).

The results of this review will be reported to the Corporate Management Team and Audit Committee.



## **INTERNAL AUDIT: STRATEGY 2012/13**

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

In line with good practice guidance, a completely independent external review of performance will be sought every three years. External Audit undertook such a review in 2010/11 so the next one is due in 2013/14.

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 FILES / DOCUMENT RETENTION**

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.

Internal Audit will manage its information in accordance with the document retention schedule contained in the Council's Document Retention Policy.

Generally audit files and records are confidential. They will only be shared with:

- the service being audited
- external audit, who have a statutory right of access, under the Audit Commission Act 1998, to every document relating to a body subject to audit, which appears to them necessary for the purposes of their functions under the Act
- officers dealing with requests made under the policies covering the Freedom of Information Act 2000 and Data Protection Act 1998.

Files and report can be shared with others but permission must first be obtained from the relevant Director and the Head of Internal Audit.

### **APPENDICES**

- **APPENDIX 1: THREE LINES OF DEFENCE MODEL**
- **APPENDIX 2: AUDIT APPROACH**
- **APPENDIX 3: AUDIT PLAN FOR 2012/13**
- **APPENDIX 4: PERFORMANCE INDICATORS FOR 2012/13**
- **APPENDIX 5: HOW INTERNAL AUDIT WILL WORK WITH YOU**