



INTERNAL AUDIT STRATEGY AND AUDIT PLAN

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APPENDIX 2: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

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 system of internal control, 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 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
- Standards of Public Life'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 meeting.

APPENDIX 2: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

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 recommendations 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 system of internal control is robust enough to ensure its objectives 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 governance, risk management and control 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 strategies and objectives.

Risk Management

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

- the Council's objectives support and align with its mission

APPENDIX 2: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

- 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 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 objectives
- 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 and how the Council manages fraud risk.

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
- whether 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 governance, risk or control processes.

Limitations

Internal Audit will not:

- assume management responsibilities
- control the risks of the Council
- establish and maintain any systems of internal control

APPENDIX 2: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

- determine operational policies or procedures
- detect fraud and irregularity as management is responsible for mitigating this risk.

RISK ASSESSMENT

A risk based approach is used to identify areas for review, which takes into account the risk maturity of the Council. 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)
- regular discussions with the Chief Executive and Corporate Directors / Director
- at least annual discussions with all Heads of Service
- the work of the Good Governance Group
- audit risk assessments
- horizon scanning to establish potential new risks that may materialise during the year
- outcomes from other relevant, independent audits, inspections or work undertaken.

Audit risk assessments will be maintained to support general audit (including anti-fraud and corruption) and information technology work. The IT risk assessment takes into account compliance with a recognised industry standard. The other risk assessment will:

- cover all service activities but exclude certain areas of work that require annual review
- be reviewed annually with the Chief Executive, Corporate Directors / Director and Heads of Service.

In assessing the level of assurance required by management regarding the satisfactory operation of all Council services, and therefore their priority, account will be taken of:

- financial risk
- public related risks (including satisfaction and reputational)
- operational risks (including importance in delivering corporate priorities)
- legal and political risks
- people and property risks (including health & safety and safeguarding)
- inherent risk (including that of fraud).

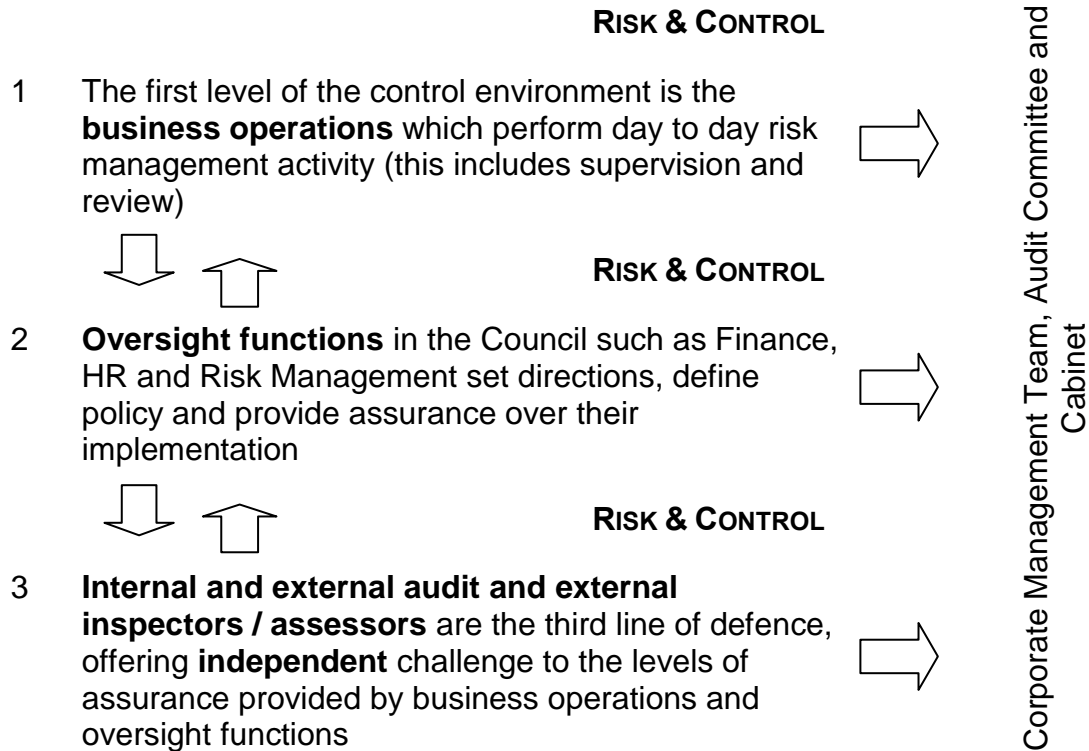
The audit risk assessment helps identify activities that are 'higher risk' because, for example, they are inherently complex, material or susceptible to fraud but well controlled. It is important that regular evidence is obtained by management that controls in these areas remain appropriate and are consistently applied as a significant control failure could have a serious impact on the Council's ability to deliver the service.

APPENDIX 2: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

Assurance Framework

Before producing the audit plan, a high level assessment will be made of the evidence already available about the operation of individual services including both the understanding and good management of related risks.

As part of the planning work, evidence will be looked for and then evaluated at all three levels outlined in the Three Lines of Defence model outlined below:



Some of this evidence will be recorded as part of the audit risk assessment documentation.

Consideration will also be given to the robustness of any other assurance process implemented by management that provides evidence that controls mitigating key service delivery risks are operating properly, as designed.

Before relying on any such evidence, it will be necessary to fully understand what risks and controls such assurance covers and how reliable it is.

Therefore it is likely some re-performance work will need to be undertaken to confirm the validity of the findings before it is relied upon for audit purposes.

THE AUDIT PLAN

A programme of core audits will be agreed with senior management based on the assessment of risk outlined above. The plan will only include activities assessed at risk level 1 or 2 unless a specific in year risk is identified that needs review. The annual plan will also include time for:

- governance reviews
- key financial systems reviews
- checking recommendations have been implemented
- audit planning, reporting and managing contractors.

APPENDIX 2: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

Therefore the audit plan, attached at **Appendix 2A**, 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.

A contingency budget has been built into the audit plan. Nevertheless any in year risks that arise will be considered against the need to deliver the core work before the audit plan is amended. Changes to the audit plan will be reported to senior management and the Audit Committee for review and approval.

Fraud and corruption risks will be considered when determining the focus of each relevant audit.

Any fraud investigations that arise will be undertaken by the Counter Fraud & Investigation service provided to the Council by Thurrock Council. However the Internal Audit team will continue to work closely with the Counter Fraud & Investigation team to provide the Council with an effective and integrated service.

Significant consultancy engagements, if accepted, will be included in the audit plan.

Resources

A staff needs assessment will be maintained to calculate the overall capacity of the service, taking into account the skill mix of the in house team. A summary of this information will be provided to senior management and the Audit Committee for review and approval as part of the annual plan documentation.

The service will predominantly be provided by a combination of resources employed by both Castle Point and Southend-on-Sea Borough Councils under service level agreements, under the management of SBC's Head of Internal Audit. The core team will be supplemented by resources obtained via a framework contract with an external supplier.

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 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 overseen by an appropriately qualified person from outside the service.

Up to date job profiles will be maintained reflecting modern professional requirements.

Staff will not be allowed to audit the same area for more than three consecutive years thus preventing over-familiarity and complacency that could influence objectivity.

APPENDIX 2: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

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.

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

The performance indicators being proposed are attached at **Appendix 2c** and cover economy, staff productivity, efficiency and effectiveness. Performance against relevant targets set will be reported to senior management and the 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 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 and reported upon periodically.

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 relevant Corporate Directors / Director and the Head of Internal Audit.

HOW WE WILL WORK WITH YOU

Appendix 2d 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.

APPENDIX 2: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

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 with service managers and Heads of Service before being sent to Corporate Directors / Director to be signed off.

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 and the relevant Corporate Directors / Director.

Audit reports will be designed to:

- give an opinion on the risk and controls in the area under review
- agree and record management actions that improve the control environment, with 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.

The Head of Internal Audit annual report will include:

- an annual opinion on the adequacy and effectiveness of the Council's governance, risk management and control framework
- 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:

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

External Audit

Meetings will be arranged with the Council's external auditors to consult on and co-ordinate the respective audit plans, so maximum reliance can be placed on internal audit work.

APPENDIX 2: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

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 client satisfaction surveys
- regular monitoring of service delivery via agreed performance targets
- an annual self assessment of compliance with relevant professional standards, (as required by the Accounts and Audit (England) Regulations 2011)
- a periodic assessment of compliance with the CIPFA statement on the Role of the Head of Internal Audit in Local Government.

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

An external assessment will be conducted at least every five years by a qualified, independent assessor from outside the Council / service. The Head of Internal Audit will discuss and agree with senior management and the Audit Committee the:

- form of external assessment
- qualification and independence of the external assessor including any potential conflict of interest risks
- person who will act as the internal sponsor for this process.

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

APPENDICES

- **APPENDIX 2A: INTERNAL AUDIT PLAN FOR 2014/15**
- **APPENDIX 2B: AUDIT ASSURANCE IN RELATION TO CORPORATE RISKS**
- **APPENDIX 2C: INTERNAL AUDIT PERFORMANCE INDICATORS 2014/15**
- **APPENDIX 2D: HOW WE WILL WORK WITH YOU**