UTTLESFORD DISTRICT COUNCIL

It's Our Community

# INTERNAL AUDIT

# STRATEGY

# 2010/11

**"Internal auditing is an independent, objective, assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."**
**The Institute of Internal Auditors – UK and Ireland**

The Chartered Institute of Public Finance (CIPFA) Code of Practice for Internal Audit in Local Government requires the Auditor Manager to produce an Audit Strategy. This is a high level statement of how the internal audit service should be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities.

Internal Audit work partly informs the Annual Governance Statement which incorporates Statement of Internal Control contained in the Council's Statement of Accounts. The requirement for this statement comes from Regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of an Annual Governance Statement.

Internal Audit is provided at Uttlesford District Council by its in-house Internal Audit team, comprising of:

- The Audit Manager and
- 2 Internal Auditors

## Purpose

1. The function of Internal Audit is to provide an independent and objective opinion to the organisation on the level to which the internal control environment supports and promotes the achievement of the organisations objectives. The purpose of the audit planning process is to ensure that resources are appropriately focused in order to provide maximum audit coverage.

2. Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
    - Strategic Management
    - Reliability of financial reporting and other management information
    - Compliance with laws, policies, procedures
    - Effectiveness of operations (including security of assets)

## Scope

3. The scope of Internal Audit is specified in the Internal Audit Charter and Terms of Reference and in the Council's Financial Regulations.

## Strategic Plan

4. The Audit Manager is required to identify all systems operating within the Council in order to establish the full size of the audit area potentially to be covered. This is done by reference to the Budget Book, Directors, Audit Commission, Heads of Divisions and will include the Corporate and Divisional Risk Registers. This forms the Strategic Plan.

5. The Strategic Plan is a rolling five year plan which is revised each year to take into account the new priorities and risks of the authority.

6. All areas identified in the Strategic Plan are subject to an audit needs risk assessment to identify their risk level and whether or not they are to be included in the annual plan.

7. The Audit Plan is divided into three specific areas – Corporate Audits, Operational Audits and Productive Non-Specific Audit Work.

## Annual Plan- Audit Areas

8. The Audit Manager is required to produce an annual plan for each financial year that translates the Strategic Plan into a schedule of audit assignments. It defines the area and duration of each audit based on each audit's programme, risk assessment, time spent in previous audits, any problems encountered and level and skill of staff involved.

9. In order to preserve the independence of Internal Audit the final risk assessment and inclusion in the Annual Plan rests with the Audit Manager.

10. Audit resources are matched to the areas to be audited and any audits that will not be covered will be brought to the attention of the Assistant Chief Executive, Directors and Members for them to make a decision on Audit resource.

11. In order to maximise resources between the Audit Commission, our External Auditor and Internal Audit, the Audit Manager and Audit Commission Manager try to take into account where their resources can be shared. We have a managed audit agreement with the Audit Commission who, where they can, will place reliance on Internal Audit work in order to form their opinion on the Authority's accounts. The managed audit agreement requires annual audits of agreed key financial areas and to accommodate this, the Audit Plan risk assessment takes into account Audit Commission requirements.

12. Corporate Audits are corporate wide service areas or operations which are reported directly to Directors. Those included in the 2010/11 plan are:

- Corporate Governance
- Corporate Income including Cash Income
- Corporate Budget setting
- Corporate Reconciliations
- Contracts & Partnership Management and Value for Money
- Procurement
- Budget Monitoring & Reporting
- Asset Management
- Performance Management
- ICT
- Information Management
- Partnerships
- Grants & External Funding

Aspects of some of these audits are included in the managed audit agreement with Audit Commission e.g. Cash Income, General Ledger Reconciliations, Asset Management, Procurement.

13. Operational Audits are service specific audits of which the Chief Auditee is either the Head of Division or Director where a service manager reports directly to him or her.

14. Eight of the Operational Audits are the audits assessed at risk level 4 and carried out annually as part of our managed audit agreement with External Audit:

- Rents
- Housing benefits
- Payroll, allowances & expenses
- Creditors & VAT
- Business rates
- Council tax
- Sundry Debtors
- Treasury management

15. These key financial audits are our priority, which must be completed in agreement with External Audit deadlines in order for them to be able to use the work of Internal Audit.

16. The Chief Finance Officer will be consulted on terms of Reference for all Key Financial Audits.

17. The External Auditors must now comply with the International Auditing Standards (IAS) and can only rely on the work of Internal Audit if they either perform some similar tests, or re-perform some of the tests carried out by Internal Audit and are satisfied as to the results and quality of the work.

18. The remaining Operational Audits are usually at risk levels 1- 3, (although exceptionally an audit may be assessed at level 4), and will be prioritised in accordance with their audit needs risk assessment.

19. Internal Audit time is prioritised by risk level and allocated accordingly throughout the year and to ensure full audit coverage over the rolling five-year period. The frequency of audits is determined by Risk Level is subject and to priorities and available resources, we aim to carry out:

- Risk Level 4 audits annually
- Risk Level 3 audits generally every 2 years
- Risk Level 2 audits generally every 3 - 4 years
- Risk Level 1 audits generally every 4 - 5 years

20. Productive Audit time takes into consideration:

- Consultancy and General Advice - to allow for changes in priorities and issues that arise during the year; extensions to reviews where further testing may be required because of control weaknesses; advice on general control issues and Financial Regulation requests etc.

- Contribution to Corporate Management – to include the Internal Auditor time spent on corporate projects and working groups.

- Follow-up Audit time – to ensure that critical and important recommendations have been implemented.

- Irregularity Provision – to include the provision of an independent investigation service on internal matters that require investigative and evidence gathering skills. Also to review controls post investigation as part of the core audit function.

- Residual Audit Work – to ensure timely completion of any residual previous year's audits.

21. The Accounts and Audit Regulations require that Internal Audit provide independent assurance on the control framework for inclusion in the Annual Governance Statement. Therefore, the priority for the Audit Service must be to carry out and achieve the planned work as contained in the Annual Audit Plan.

22. Unplanned work will be prioritised and carried out in preference to items in the Audit Plan, if assessed as immediate priority, in accordance with the following criteria:
    - Risks if the work is not carried out
    - Impact on the Audit Plan
    - Whether the work can be left until the Plan is reviewed or is immediately required

23. The Audit plan will be reviewed quarterly to take account of any significant changes in priority that may have occurred during the year.

## Resources

24. The biggest impacts on Audit resources are special investigations and unplanned work. If the allocated days are exceeded, Internal Audit priority will be given to Level 4 and Level 3 work over any other work on the annual audit plan.

25. Giving one-off advice to departments on a range of control issues and allowing further time on audits where further testing is required also adds to the pressure on resources.

26. If extended unplanned work is deemed to be necessary, then resource levels and the impact on the annual and strategic plans will need to taken into consideration.

## Level and Depth of Reviews

27. Each potential audit area identified in the Strategic plan is subject to an audit needs risk assessment taking into consideration:
    - If significant risk have been identified on a risk register above the Corporate Risk Appetite of 6

- Interest to Internal Audit – e.g. the level of past audit opinions; recommendations made; fraud risks etc
- Interest to management/members and Audit Commission – e.g. as a business priority; as part of the risk register; because of potential political sensitivity; as a Key Performance Indicator; a Project etc
- Volumes, values and complexities of transactions
- Span of control or level of devolvement
- Weighted by the date of the last audit
- New system or business activity

Risk levels are determined according to the Council's risk scoring system, assessing the potential risks to the Council if audit is not carried out

- Risk Level 4 - potentially catastrophic effect or near certainty of likelihood requiring immediate action
- Risk Level 3 – potentially significant impact or likelihood requiring action
- Risk Level 2 audits – potentially some impact or likelihood where action may be necessary
- Risk Level 1 audits - potentially little or no impact or likelihood

28. The audit needs risk assessment gives an indication of the level of risk. The Audit Manager uses her judgement to assess the provisional amount of time to allocate to each area on the audit plan (based on previous time spent, resources available etc)

29. At the start of each audit assignment the Auditor will undertake a further risk assessment to firm up the time to be spent, taking into consideration:

- Any concerns that the Head of Division or Strategic Director may have
- Changes since last audit
- Previous recommendations made / implemented
- Issues/Special Investigations since last audit

30. If, because of control weaknesses, further testing is required which leads to the time allocated likely to be exceeded, and the Audit Manager considers that it is required, extended time will be taken out of consultancy and general advice unplanned time.

## Reporting

31. Reporting will be as described in the Audit Charter and Terms of Reference

32. Follow-up action will be as described in the Audit Charter and Terms of Reference

33. In the Internal Audit Annual Report and Opinion, the Internal Audit Manager reports annually to Directors and the Performance Select Committee, providing the audit opinions of all audits completed and an overall audit opinion on the control environment.

**APPENDIX A**

## INTERNAL AUDIT ASSURANCE OPINION DEFINITIONS

| Opinion | Definition |
|---|---|
| **Substantial** | Good effective management of risk; no significant recommendations arising.<br>Overall there should be no more than six recommendations of which:<br>none are risk level 4 or 3 recommendations and<br>no more than two are risk level 2 recommendations |
| **Adequate** | Sound satisfactory management of risk; identification of some elements of the control framework that merit attention; Marginal identification of deficiencies in the control framework that result in some risks not being managed effectively and must be addressed.<br>Overall there should be no more than ten recommendations of which:<br>no more than two recommendations at risk levels 4 and 3 and<br>no more than six are risk level 2 recommendations |
| **Limited** | Unsatisfactory identification of deficiencies in the control framework compromising the overall management of risks demanding immediate attention.<br>Overall there should be no more than fourteen recommendations of which:<br>no more than four recommendations are at risk levels 4 and 3 and<br>no more than ten recommendations are at risk level 2 |
| **Little** | Major controls have failed and/or major errors have been detected. There will be:<br>more than fifteen recommendations or<br>more than four recommendations at risk level 4 and 3 or<br>more than ten recommendations at risk level 2 |