



# INTERNAL AUDIT

  

# STRATEGY

  

# 2011/12

**“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 Chartered Institute of Internal Auditors – UK and Ireland**

# Introduction

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
- 1 Internal Auditor - full-time
- 1 Internal Auditor - part-time, 0.68 FTE (temporary post six months)

## 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 potential audit area to be covered. This is done by reference to the Corporate and Divisional Risk Registers, Directors, Divisional Heads and the Audit Commission and forms the Strategic Plan.
5. The Strategic Plan is revised annually 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 when they are to be included in the 2011/12 Internal Audit Programme.
7. The Internal Audit Programme for 2011/12 differs from the audit plans of previous years, in that it is designed to meet the changes anticipated throughout 2011/12. It is a rolling programme of planned audit work rather than the traditional static 12 month plan and will be subject to regular review and updating at strategic points throughout the year:
  - 31 May 2011 - following Council Elections and changes in Executive Arrangements
  - 31 August 2011 – review of resources needed to complete 2011/12 statutory work
  - 30 September 2011 – half-year
  - at any other relevant points e.g. the transfer of Revenues & Benefits work to Harlow; other partnerships / joint working arrangements etc.

# Audit Programme

8. Historically the Audit Manager has required by Strategic Management and Members to produce an annual plan for each financial year that translates the Strategic Plan into a schedule of audit assignments. Agreement was given by Strategic Management and Members of the Performance Select Committee in January & February 2011 respectively for the requirement to change to that of a rolling programme of Internal Audit Work for 2011/12. The Audit Programme defines the area and approximate duration of each audit based on 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 Audit Programme 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 - Legal, Directors and Members for them to make a decision on Audit resource. The Audit Programme of work planned for quarters 1 & 2 of 2011/12 was agreed with Strategic Management in April 2011 along with agreement for potential extension of the temporary member of staff's contract if additional resources are required (paragraph 7 refers).

11. The 2011/12 Audit Programme is risk based as far as is possible, our auditing priorities are:
1. Corporate & Divisional Plans / Risk Registers – highest risks
  2. Key Financials – Audit Commission 2011/12 audit areas to be completed by 31 December 2011
  3. Key Financials – residual audits as part of the managed audit agreement with the Audit Commission to be completed by 30 April 2012
  4. Specifically requested Directorate & Divisional High risk areas or services following consultation with Strategic Management and Divisional Heads
  5. Specifically requested areas following consultation with Members
  6. Audits carried forward from the 2010/11 plan and any overdue audits from the 2010/11 5 year strategic plan
12. The 2011/12 Audit Programme covers a total of thirty audits;
- fourteen Corporate Audits (corporate wide service areas or operations which are reported directly to Directors) and
  - sixteen Operational Audits (service specific audits of which the Chief Auditee is Divisional Head or Director to whom a service manager reports directly).
13. We have a managed audit agreement with the External Auditor, the Audit Commission, who will place reliance on Internal Audit work in order to form their opinion on the Authority's accounts. The Audit Commission have identified twelve material systems which they review either annually or over a three year cycle. These form the basis of the managed audits agreement which requires annual internal audits of agreed key financial areas.
14. The Key Financial audits are afforded highest priority in terms of time and resources. Agreed Protocols with the Audit Commission detail the specific areas to be audited and the timetable for completion in order for them to place reliance on the work of Internal Audit. The Audit Programme risk assessment takes into account Audit Commission requirements, by rating Key Financials to be completed to draft report stage by 31 December 2011 as risk level 4 and residual Key Financials to be completed to draft report stage by 30 April 2012 as risks level 3 or 2.
15. The External Auditors must now comply with the International Auditing Standards (IAS). O ensure reliance can be place on the work of Internal Audit, we will match the required test sample size and frequency as part of our testing programme for those audits to be completed by 31 December 2011.
16. The Assistant Chief Executive – Finance (Scion 151 Officer) will be consulted on Terms of Reference for all Key Financial Audits.
17. There are thirteen Key Financial (Managed Audits) covering the Audit Commission's material systems:
- Key Financial (Managed Audits) to be completed by 31 December 2011
- Corporate Budgets (*Audit Commission General Ledger work*)
  - Corporate Income (*Audit Commission General Ledger and Bank & Cash work*)
  - Corporate Reconciliations (*Audit Commission General Ledger and Bank & Cash work*)

- Creditors
- Housing Rents

Key Financial (Managed Audits) to be completed by 30 April 2012

- Corporate Asset Management
- Corporate Contracts & Procurement and VFM
- Council Tax
- Housing Benefits
- NNDR
- Payroll, Allowances & Expenses
- Sundry Debtors
- Treasury Management

18. The remaining Audits included in the 2011/12 Audit Programme are:

Corporate Audits

- Corporate Governance & AGS
- Corporate Performance Management
- Corporate Information Management
- Corporate Risk Management
- Corporate Health & Safety
- Corporate Diversity & Equality
- Corporate ICT
- Corporate Partnerships
- Corporate Grants & External Funding

Operational Audits

- Community Health & Leisure
- Customer Care & Access to Services
- Housing Contract Systems
- Housing Strategy
- HR
- Mailroom & Reprographics
- Services for Older People
- Voids

19. Productive Non-Specific Audit time is allocated for:

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

- **Committee and Member related work** – to include Committee Report preparation, liaison meetings with Performance & Audit Committee Chair and other Members and dealing with Member queries
- **Contribution to Corporate Management** – to include the Internal Auditor time spent on corporate projects and working groups.
- **Fraud Related work** – to include National Fraud Initiative Key Contact Audit Manager) responsibilities and anti-fraud and corruption work .

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

## Resources

22. 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 Audit Programme.
23. 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.
24. If extended unplanned work is deemed to be necessary, then resource levels and the impact on the Audit Programme and the Strategic Plan will need to be taken into consideration.

## Level and Depth of Audits

25. 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 – potentially some impact or likelihood where action may be necessary
- Risk Level 1 - potentially little or no impact or likelihood

26. In 2011/12, we are introducing selected lean auditing methods of internal auditing to either replace or compliment our current practices which we believe will continue to provide the same quality of assurance but in a more effective, efficient and economical way with the resources now available to us.

27. The audit needs risk assessment gives an indication of the level of risk. The Audit Manager uses her judgement to assess the approximate amount of time to allocate to each area on the audit plan (based on previous time spent, resources available etc). Although approximate days have been given against audits, this new method of working should help us to reduce the actual time taken on an audit by focussing where possible on the highest risk areas and controls.

28. At the start of each audit assignment, we shall be undertaking a more detailed pre-engagement planning and assessment process to decide the level or type of audit fieldwork that needs to be undertaken. Regular review and assessment is an integral part of the lean auditing methodology. Prior to Terms of Reference being issued for the audit, we will evaluate all of the information gathered through the pre-engagement planning stage and at that point we will decide on the type of audit to be undertaken e.g.:

- ***In depth audit*** - traditional audit practice, now likely to only be used for specific audits e.g. Key Financials (Audit Commission 2011/12 audit areas);
- ***Audit*** - to be the standard audit type, concentrating on the specific areas identified at the pre-audit engagement planning stage, can be escalated to full audit if further testing is deemed necessary;
- ***Audit Review*** - to be the first option where it's known no major changes have occurred can be tailored to specific areas of concern or offered if limited ad hoc audit work is requested. May incorporate some method of self-assessment and include a level of direct Auditee involvement;
- ***High Level Review*** - to be offered initially at any request for ad hoc audit work to determine what level audit is necessary, may include desk review of risk registers / PIs / Div plans etc & a level of direct Auditee involvement;

29. If field work identifies further testing is required an audit type can be amended. If additional work leads to the time allocated being exceeded, and the Audit Manager considers that it is required, extended time may be taken out of consultancy and general advice unplanned time.

## Reporting

30. Reporting will be as described in the Audit Charter and Terms of Reference
31. Follow-up action will be as described in the Audit Charter and Terms of Reference
32. The Internal Audit Manager provides regular Progress Reports to the Performance & Audit Committee on progress against the Audit Programme and on the implementation of Internal Audit Recommendations
33. In the Internal Audit Annual Report and Opinion, the Internal Audit Manager reports annually to Directors and the Performance & Audit Committee, providing the audit opinions of all audits completed and an overall audit opinion on the control environment.

Sheila Bronson  
Internal Audit Manager  
May 2011



APPENDIX

**INTERNAL AUDIT ASSURANCE OPINION CRITEREA**

Opinion	Definition	Maximum recommendations overall	Maximum number of level 4 PLUS level 3 recommendations	Maximum number of level 2 recommendations
<b>Substantial</b>	Good effective management of risk; no significant recommendations arising.	6	0	2
<b>Adequate</b>	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.	10	2	6
<b>Limited</b>	Unsatisfactory identification of deficiencies in the control framework compromising the overall management of risks demanding immediate attention.	15	4	10
<b>Little</b>	Major controls have failed and/or major errors have been detected	Over 15	Over 4	Over 10

**INTERNAL AUDIT RISK LEVEL DEFINITIONS**

Risk Level	Impact	Action timescale	Description
<b>1</b>	Little or none	None defined	Matters that merit attention and would improve overall control
<b>2</b>	Some	Within <b>12 months</b>	Matters that are considered important that should be addressed within twelve months.
<b>3</b>	Significant	Within <b>6 months</b>	Matters that are considered significant that should be addressed within six months.
<b>4</b>	Catastrophic	<b>Immediate</b>	Matters that are considered fundamental that require immediate attention and priority action