INTERNAL AUDIT STRATEGY
2012/13
(June 2012)

"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.

The service is an assurance function that primarily provides an independent and objective opinion on the management of operational risk, control and governance.

Internal Audit is statutory service that forms part of the Council's Corporate Governance Framework.

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, 0.7 FTE

Objectives

1. The Internal Audit Service aims to contribute to the Corporate Objective of setting a high example by exemplary corporate governance and standards.

2. The primary objective of the Internal Audit Service is to provide independent, objective assurance and consulting services designed to add value and protect public resources. The Internal Audit Service aims to assist in improving the efficiency and operations of the organisation in line with corporate values of continuously challenging services and promoting openness, accountability and high standards of risk management, internal control and governance.

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 Programme

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 Directorate Risk Registers, the Corporate Management Team (CMT) and the Council's External Auditors and forms the Strategic Programme.

5. The Strategic Programme is revised annually to take into account the new priorities and risks of the authority.

6. All areas identified in the Strategic Programme are subject to an audit needs risk assessment to identify their risk level and if they are to be included in the 2012/13 Internal Audit Programme.

Audit Programme

7. The Internal Audit Programme for 2012/13 is a rolling programme of planned audit work expected to be undertaken during the year and will be subject to regular review and updating at strategic points throughout the year:
   - 30 June 2012 – review of expected quarter 1 and quarter 2 audit work
   - 31 August 2012 – following confirmation of appointment of the Council's new External Auditors to review of key financial audit work
   - 30 September 2012 – half-year
   - At any other relevant point during the year

8. Agreement was given by Corporate Management and Members of the Performance & Audit Committee in February 2012 to the provisional programme of Internal Audit Work for 2012/13. The Audit Programme defines the area and approximate duration of each audit based on risk assessment, time spent in previous audits, previous problems encountered and the 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 2012/13 was agreed with the Corporate Management Team in April 2012.

11. The 2012/13 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 – to be confirmed with the new External Auditors following confirmation of their appointment expected on 27 July 2012.
    3. Other areas considered high risk by the Audit Manager

4. Specifically requested Directorate & Divisional High risk areas or services following consultation with the Corporate Management Team
5. Audits carried forward from the 2011/12 plan and any overdue audits from the 2012/13 Strategic Programme

12. Historically we have had a managed audit agreement with our former External Auditor, the Audit Commission, who placed reliance on Internal Audit work in order to form their opinion on the Authority's accounts. It is expected that Ernst Young will be appointed as the External Auditors for 2012/13. Once their appointment has been confirmed we will liaise with them to determine the new Key Financial Audits to be undertaken and the Audit Protocol for any new managed audit agreement.

13. The Key Financial Audits are afforded highest priority in terms of time and resources; 110 days for 11 Key Financial Audits has been provisionally set aside for these audits in quarters 3 & 4 of 2012/13.

14. The Assistant Chief Executive – Finance (Section 151 Officer) will be consulted on Terms of Reference for Key Financial Audits.

15. There are 16 non key financial audits included in the initial 2012/13 Audit Programme:
    Corporate Audits
    - Corporate Equality & Diversity
    - Corporate Governance & AGS
    - Corporate Grants & External Funding
    - Corporate ICT
    - Corporate Partnerships
    - Corporate Risk Management

    Operational Audits
    - Customer Care & Access to Services
    - Electoral Registration
    - Emergency Planning / Business Continuity
    - Enforcement
    - Homelessness
    - Housing Allocations
    - Mailroom & Reprographics
    - Street Services
    - Utility Payments & Energy Efficiency
    - Voids

16. A further 10 non key financial audits areas have been identified for potential audit work in 2012/13 following any periodic review of the Audit Programme:
    Corporate Audits
    - Corporate Information Management
    - Corporate Training

    Operational Audits
    - Access to Services
    - Conservation & Landscape

- Facilities Management
- Insurance
- Legal Services
- Licensing
- Museum
- Section 106 Agreements

17. 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 awareness work.

18. 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.

19. Unplanned work will be assessed and if considered high priority carried out in preference to items in the Audit Programme in accordance with the following criteria:
    - Risks if the work is not carried out;
    - Impact on the Audit Programme;
    - If the work is of a lesser priority than other work on the Audit Programme it may be left until the next Audit Programme review.
    If considered medium to low priority it will be included in the Audit Programme review

Resources

20. The biggest impact 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.

21. 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.

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

Level and Depth of Audits

23. Each potential audit area identified in the Strategic Programme 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; recommendations implemented; 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

24. We will continue using the lean auditing methods of internal auditing we introduced in 2011/12 to provide a high quality of assurance to Directors and Members in an effective, efficient and economical way with the resources available to us.

25. 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, lean auditing methodology is expected to help us to reduce the actual time taken on an audit by focussing where possible on the highest risk areas and controls.

26. At the start of each audit assignment, we will undertake 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:

In depth audit - traditional audit practice, now likely to only be used for specific audits e.g. Key Financials;

Standard 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 / Performance Indicators / Directorate and service plans and a level of direct Auditee involvement.

27. Where 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

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

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

30. 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

31. 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
June 2012

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
Substantial	Good effective management of risk; no significant recommendations arising.	6	**0**	**2**
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.	10	**2**	**6**
Limited	Unsatisfactory identification of deficiencies in the control framework compromising the overall management of risks demanding immediate attention.	15	**4**	**10**
Little	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
1	Little or none	None defined	Matters that merit attention and would improve overall control
2	Some	Within **12 months**	Matters that are considered important that should be addressed within twelve months.
3	Significant	Within **6 months**	Matters that are considered significant that should be addressed within six months.
4	Catastrophic	**Immediate**	Matters that are considered fundamental that require immediate attention and priority action