



Internal Audit STRATEGY 2013/14

August 2013

INTERNAL AUDIT STRATEGY 2013/14

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1 Introduction

Background

1.1 With effect from 1 April 2013, the work of Uttlesford District Council's (UDC) Internal Audit is governed by the UK Public Sector Internal Audit Standards (PSIAS) which have replaced the CIPFA Code of Practice for Internal Audit in the UK. The PSIAS comprise a revised definition of internal auditing, a Code of Ethics for internal auditors working in the public sector and the Standards themselves. The PSIAS are mandatory for all internal auditors working in the UK public sector.

1.2 Internal Audit is defined in the PSIAS as follows:

“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.”

1.3 The PSIAS require that there must be a risk-based internal audit plan that takes into account the requirement to produce an annual internal audit opinion and assurance framework. It must incorporate in or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities

2. Internal Audit Strategic Programme 2013

2.1 The Internal Audit Strategic Programme details all potential audit areas at both corporate and service area levels within UDC and forms the starting point for the annual audit planning process.

2.2 In January 2013, the Internal Audit Strategic Programme was reviewed in conjunction with CMT to ensure that it remained up to date and continues to take account of emerging risks and service developments ensuring the focus of Internal Audit work remains relevant to the Council's vision and current priorities. The Internal Audit Strategic Programme was presented to the Performance & Audit Committee at its February 2013 meeting.

Risk Assessment

2.3 Each potential audit area identified in the Internal Audit Strategic Programme is subject to an audit needs risk assessment taking into consideration:

- Significant risk 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 External Auditors – 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.;

- Volume, value and complexities of transactions;
- Span of control or level of devolvement;
- The date of the last audit;
- New system or business activity.

2.4 Risk levels are determined according to the Council's corporate method of risk scoring, 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.

2.5 The audit needs risk assessment will influence the frequency of audit review and the estimated resource requirements to meet the expectation that all potential audit areas will be audited at least once over a five year period.

3. Internal Audit Work Programme 2013/14

Planning

3.1 The Internal Audit Work Programme for 2013/14 sets out the audit work programme for the financial year. It is a rolling programme of planned audit work expected to be undertaken during 2013/14 and is subject to regular review and updating at strategic points throughout the year:

- early April 2013 to determine the proposed audit work for quarters 1 & 2 of the new financial year;
- at the end of June 2013 to determine proposed audit work for quarters 2 and 3 of the financial year;
- at the end of September 2013 to determine proposed audit work for quarters 3 and 4 of the financial year;
- once External Audit are able to provide guidance on the control areas that they are expecting to review in their work (expected by the end of September 2013) and
- at any other relevant point during the year

3.2 In order to preserve the independence of Internal Audit the final risk assessment and inclusion in the Internal Audit Work Programme rests with the Internal Audit Manager.

3.3 Agreement was given by CMT and Members of the Performance & Audit Committee in February 2013 to the initial Internal Audit Work Programme for 2013/14. The Internal Audit Work 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.

- 3.4 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 Executives – Finance and Legal, Directors and Members.
- 3.5 The 2013/14 Internal Audit Work Programme is risk based as far as is possible, our auditing priorities for 2013/14 are:
1. Corporate & Divisional Plans / Risk Registers – highest risks.
 2. Key Financials Audit – Corporate and Operational to meet the Accounts and Audit (England) Regulations 2011 and to provide specific testing on systems controls on which External Audit can place reliance (to be confirmed by the External Auditors in September 2013).
 3. Other areas considered high risk by the Internal 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 2012/13 plan and any overdue audits from the 2013/14 Strategic Programme.
- 3.6 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.

Key Financial Audits

- 3.7 The Key Financial Audits are afforded highest priority in terms of time and resources.
- 3.8 Following the June 2013 review of the Internal Audit Work Programme for 2013/14, there are 16 Key Financial Audits:

Corporate

General Ledger
Cash & Bank
Corporate Asset Management
Corporate Budgets
Corporate Contracts & Procurement
Corporate Income

Operational

Council Tax
Creditors
Housing Benefits
Housing Rents
Housing Repairs
NNDR
Payroll & HR
Recovery Team – incorporating Sundry Debtors
Taxation
Treasury Management

- 3.9 The Assistant Chief Executive–Finance (Section 151 Officer) will be consulted on Terms of Reference for Key Financial Audits.
- 3.10 The 2013/14 Audit Programme has 150 audit days provisionally set aside for Key Financial Audits; bulk of this work to be carried out in quarters 3 & 4 of 2013/14.

Other Audits

- 3.11 Following the June 2013 review of the Internal Audit Work Programme for 2013/14, there are 15 Other Audits:

Corporate

Corporate Governance & AGS
Corporate Access to Services
Corporate Partnerships - LSP
Corporate ICT
Corporate Equality & Diversity
Corporate Training
Corporate Performance Management

Operational

Housing Rent Deposit Scheme
Street Services
Emergency Planning
Environmental Health
Facilities Management
House Sales
Local Land Charges
Car Parking Partnership

- 3.12 The 2013/14 Audit Programme has 160 audit days provisionally set aside for Non-key Financial Audits; this work will be carried out throughout 2013/14.
- 3.13 A further 8 Other Operational Audit areas have been identified for potential audit work in 2013/14:

Members' Allowances & Expenses
Elections
Economic Development Service
Housing Contract Systems
Building Control Service and Fees
Community Safety - including anti-social behaviour
Planning - Development Management (control)
Planning - Support & Advice (planning fees)

Productive Non-Audit Days

- 3.14 Productive audit time is also taken up by various non-specific audit work which includes:

- **Residual Audit Work** – to ensure timely completion of any residual 2012/13 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 Members' queries;
- **Contribution to Corporate Management** – to include the Internal Auditor time spent on corporate projects and working groups;
- **Fraud Related work** – to include the Internal Audit Manager's National Fraud Initiative Key Contact responsibilities; fraud risk assessments and anti-fraud and corruption awareness work.

Unplanned Work

- 3.15 Unplanned work will be assessed and if considered high priority, carried out in preference to items in the Internal Audit Work Programme in accordance with the following criteria:
- The risks if the work is not carried out and
 - The impact on the Internal Audit Work Programme.
- 3.16 If considered medium to low priority it will be included in the next Internal Audit Work Programme review.

4. Resources 2013/14

- 4.1 Internal Audit is provided at UDC by its in-house Internal Audit team, comprising of:
- Internal Audit Manager – full-time
 - 1 Internal Auditor - full-time
 - 1 Internal Auditor - part-time, 0.7 FTE
- 4.2 The biggest impact on Audit resources are special investigations and unplanned work. Priority will be given to Risk Level 4 and 3 work over any other work on the Internal Audit Work Programme if the potential audit or productive non-audit days are exceeded.
- 4.3 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. If extended unplanned work is deemed to be necessary, then resource
- Internal Audit Strategy 2013/14

levels and the impact on the Audit Programme and the Strategic Programme will be taken into consideration.

5. Types of Audits

Lean Auditing

- 5.1. We will continue using the lean internal auditing methods 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.
- 5.2. The audit needs risk assessment gives an indication of the level of risk. The Internal 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 potential days have been given against audits, lean auditing methodology helps us to reduce the actual time taken on an audit by focussing where possible on the highest risk areas and controls.
- 5.3. At the start of each audit assignment, we will undertake a planning, evaluation and assessment process to decide the level or type of audit fieldwork that needs to be undertaken. Prior to Terms of Reference being issued for the audit, we will evaluate all of the information gathered through the 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*** - 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. This 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.
- 5.4. Regular review and assessment is an integral part of lean auditing methodology.
- 5.5. 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 Internal Audit Manager considers that this work is required, extended time may be taken out of consultancy and general advice unplanned time.

6. Audit Reports & Recommendations

6.1. Reporting protocols will be as described in the Internal Audit Charter

Recommendations

6.2 All Internal Audit recommendations have a risk level given to them. This is determined according to the Council's corporate method of risk scoring, assessing the potential risks to the service and/or the Council if the recommendation is not implemented within the agreed timescale. Risk levels definitions are presented in Appendix A.

6.3 It is Internal Audit's expectation to reach agreement at the draft report stage with auditees on recommendations, management actions and implementation dates. However, it is for management to determine whether or not to accept the Internal Audit recommendations and to recognise and accept the implications of not taking action. Management must formally respond giving reasons for their decisions which will be recorded on the Final Report.

6.4 Final Reports will record the Internal Audit opinion and overall comment on the effectiveness of the service area audited. The Internal Audit opinion criteria are presented in Appendix A.

6.5 All Final Reports are copied to Members of the Performance & Audit Committee and posted on the intranet.

6.6 Implementation of all recommendations is monitored by Internal Audit through Covalent which automatically generates reminder e-mail to managers as a recommendation approaches its agreed implementation date.

6.7 Follow-up action will be as described in the Audit Charter

7. Reporting to CMT and Members

Internal Audit Progress Reports to Members

7.1 During 2013/14 the Internal Audit Manager will present regular Progress Reports to CMT and the Performance & Audit Committee which will include:

- Progress against the Internal Audit Work Audit Programme 2013/14 since the previous report;
- Risk Level 3 or 4 recommendations made since the previous report and
- The implementation of all Internal Audit Recommendations since the previous report.

The Internal Audit Annual Report and Opinion

- 7.2 The Internal Audit Manager will report in May 2014 to CMT and the Performance & Audit Committee on the audit opinions of all audits completed during 2013/14 and an give an overall audit opinion on the Council's control environment for the year in the Internal Audit Annual Report and Opinion.

- 7.3 The Internal Audit Annual Report and Opinion will be used by the Council to inform its Annual Governance Statement 2013/14 which will accompany the 2013/14 Annual Statement of Accounts.

INTERNAL AUDIT ASSURANCE OPINION CRITERIA

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.	4	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.	8	2	4
Limited	Unsatisfactory identification of deficiencies in the control framework compromising the overall management of risks demanding immediate attention.	12	4	8
Little	Major controls have failed and/or major errors have been detected	Over 12	Over 4	Over 8

INTERNAL AUDIT RISK LEVEL DEFINITIONS

Risk Level	Action timescale	Description
4	Immediate	Matters that are considered fundamental that require immediate attention and priority action
3	Within 6 months	Matters that are considered significant that should be addressed within six months.
2	Within 12 months	Matters that are considered important that should be addressed within twelve months.
1	None defined	Matters that merit attention and would improve overall control