



Internal Audit STRATEGY and WORK PROGRAMME 2016/17

April 2016

INTERNAL AUDIT STRATEGY 2016/17

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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.
- 1.4 The annual Internal Audit Strategy provides details on the production of the Internal Audit Strategic and Work Programmes for current year.

2. Internal Audit Strategic Programme 2016/17

- 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 2016, 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 2016 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:
 - The Council's Corporate Plan objectives;

- 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 systems or business activities.

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** - Matters that are considered **fundamental** that require immediate attention and priority action;
- Risk Level **3** - Matters that are considered **significant** that should be addressed within six months;
- Risk Level **2** - Matters that are considered **important** that should be addressed within twelve months;
- Risk Level **1** - Matters that merit attention and would improve overall control.

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 2016/17

Planning

3.1 The Internal Audit Work Programme for 2016/17 sets out the audit work programme for the financial year. It is a rolling programme of planned audit work expected to be undertaken during 2016/17 and is subject to regular review and updating at strategic points throughout the year:

- March/April 2016 to determine the proposed audit work for quarters 1 and 2 of the new financial year;
 - June 2016 to determine proposed audit work for quarters 2 and 3 of the financial year;
 - September 2016 to determine proposed audit work for quarters 3 and 4 of the financial year 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 selection of areas for 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 2016 to the initial Internal Audit Work Programme for 2016/17. 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 Executive, the Section 151 Officer, CMT and Members.
- 3.5 The 2016/17 Internal Audit Work Programme is risk based as far as is possible, our auditing priorities for 2016/17 are:
1. Corporate & Divisional Plans / Risk Registers – highest risks.
 2. Key Financials Audits to meet the Accounts and Audit (England) Regulations 2015.
 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 and Members.
 5. Audits carried forward from the 2015/16 plan and any overdue audits from the 2016/17 Strategic Programme.
- 3.6 Internal Audit provides independent assurance on the council's 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 March/April 2016 review of the Internal Audit Work Programme for 2016/17, there are 10 Key Financial Audits scheduled for audit work in 2016/17:

- Asset Management
- Budgets
- Cash & Bank
- Fraud (non-corporate)
- Income, Fees & Charges
- NNDR
- Payroll
- Recovery
- Treasury Management
- Value for Money

- 3.9 A further 3 Key Financial Audits areas have been identified for potential audit work in 2016/17:

- Creditors
- Housing Benefits and LCTS
- Housing Rents

- 3.10 The Section 151 Officer and Assistant Director of Finance will be consulted on Terms of Reference for all Key Financial Audits.

- 3.11 The 2016/17 Audit Programme has 85 audit days provisionally set aside for Key Financial Audits.

Other Audits

- 3.12 Following the March/April 2016 review of the Internal Audit Work Programme for 2016/17, there are 24 Other Audits scheduled for audit work in 2016/17:

- Business Continuity
- Conservation & Trees
- Corporate Governance & AGS
- Customer Service Centre
- Elections
- Electoral Registration
- Enforcement
- Facilities Management
- Grants & Awards (made)
- Grants & External Funding received
- Housing & Health - Community Health

Housing & Health - Environmental Health Food Safety & Infectious Disease Control
Housing & Health - Equality & Diversity incl Access to Services
Housing & Health - Stock & Voids
Insurance
Local Land Charges
Mailroom & Reprographics
Members' Allowances & Expenses
Museum
Partnerships
Performance Management
Planning - Housing Strategy
Street Services - Fleet & Fuel Management and Transport Maintenance
Street Services - Income Generating Services & Asset Management

3.13 The 2016/17 Audit Programme has 225 audit days provisionally set aside for these Other Audits.

3.14 A further 11 Other Operational Audit areas have been identified for potential audit work in 2016/17:

Car Parking Partnership (NEPP)
Economic Development Service
Housing & Health - Allocations
Housing & Health - Health & Safety
Housing & Health - Homelessness
Housing & Health - Services for Older People
HR
Legal Services
Leisure - Day Centres
Leisure - PFI
Planning - Local Plan

Productive Non-Audit Days

3.15 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 2015/16 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, internal data matching exercises.

Unplanned Work

3.16 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.

3.17 If considered medium to low priority it will be included in the next Internal Audit Work Programme review.

4. Resources 2016/17

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 trainee 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 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:
- **Standard Audit** - concentrating on the potential risk areas identified at the audit planning stage;
 - **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 Terms of Reference are copied to Members of the Performance & Audit Committee
- 5.5 Regular review and assessment is an integral part of lean auditing methodology; 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 a 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 2016/17 the Internal Audit Manager will present regular Progress Reports to CMT and the Performance & Audit Committee which will include:

- Details of the work completed by Internal Audit since the last report to the Performance and Audit Committee;
- Performance against the Internal Audit Work Programme 2016/17;

- Details of any recommendations not implemented within the agreed timescale.

The Internal Audit Annual Report and Opinion

- 7.2 The Internal Audit Manager will report in May 2016 to CMT and the Performance & Audit Committee on the audit opinions of all audits completed during 2015/16 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 2015/16 which will accompany the 2015/16 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
Satisfactory	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	6
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