



Internal Audit STRATEGY and WORK PROGRAMME 2019/20

July 2019

INTERNAL AUDIT STRATEGY 2019/20

CONTENTS

- 1. Introduction**
- 2. Internal Audit Resources 2019/20**
- 3. Internal Audit Strategic Programme 2019/20**
- 4. Internal Audit Work Programme 2019/20**
- 5. Types of Audits**
- 6. Audit Reports & Recommendations**
- 7. Reporting to CMT and Members**

Appendix

Assurance Opinion Criteria and Risk Level Definitions

1 Introduction

Background

- 1.1 The work of Uttlesford District Council's Internal Audit is governed by the UK Public Sector Internal Audit Standards 2017 (PSIAS) which comprise of the 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 on the Council's framework of governance, risk management and control. 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 the current financial year.

2. Internal Audit Resources 2019/20

- 2.1 Internal Audit is provided by the Council's in-house team, comprising of the Internal Audit Manager and two Internal Auditors (1.7FTE). The vacant part-time Internal Auditor post was filled from 10 June 2019.

- 2.2 The Internal Audit resource for 2019/20 is:

	01/04/19 – 09/06/19	10/06/19 – 31/03/20
Internal Audit Manager	FT	FT
Internal Auditor	FT	FT
Internal Auditor		0.7 FTE

- 2.3 Staff absence due to sickness had a major impact on the Internal Audit service in 2018/19. To mitigate this 90 days of the audit programme have been allocated to

completing the Residual 2018/19 Internal Audit work at the beginning of the 2019/20 financial year.

- 2.4 The volume of audit work planned for 2019/20 has been reduced to allow it to be completed within the nine months from 01 July 2018 to 31 March 2019.
- 2.5 To be able to provide an acceptable level of assurance on the Council's management of its operational risks, controls and governance; priority has been given to Risk Level 4 and 3 work over any other work on the Internal Audit Strategic Programme.
- 2.6 Special investigations and unplanned work can have high impact on Internal Audit resources. Any special investigation and unplanned work requests will be individually assessed and potentially outsourced if it is considered there is inadequate audit resource available to undertake the work.
- 2.7 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 Work Programme and the Strategic Programme will be taken into consideration.

3. Internal Audit Strategic Programme 2019/20

- 3.1 The Internal Audit Strategic Programme details all potential audit areas at both corporate and service area levels of the Council and forms the starting point for the annual audit planning process.
- 3.2 In May 2019, the Internal Audit Strategic Programme was reviewed in conjunction with the Corporate and Senior Management Teams 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 Governance, Audit & Performance Audit (GAP) Committee at its May 2019 meeting.

Risk Assessment

- 3.3 The 2019/20 Internal Audit Work Programme is risk based as far as is possible. 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 Actions and the Corporate Plan Delivery Plan and Service Plans;
 - The Corporate and Strategic Risk Registers;

- Key Performance Indicators and Performance Indicators;
 - Key Financial audits;
 - Interest to Internal Audit – e.g. the level of past audit opinions; recommendations made; recommendations implemented; fraud risks; volume, value and complexities of transactions etc.;
 - Specifically requested Directorate & Service high risk areas or services following consultation with CMT;
 - Audits carried forward from the previous year's Audit Programme and any overdue audits from the Strategic Programme;
 - Weaknesses identified in the Annual Governance Statement;
 - Issues raised by the GAP Committee;
 - Audit resource availability.
- 3.4 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.
- 3.5 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 have some level of audit review at least once over a five year period.

4. Internal Audit Work Programme 2019/20

- ### Planning
- 4.1 The Internal Audit Work Programme for 2019/20 is a rolling programme of planned audit work expected to be undertaken during 2019/20 from 01 July 2019 and is subject to regular review and updating at strategic points throughout the year:

- June 2019 to determine the proposed audit work for quarter 2 of the new financial year;
 - October 2019 to determine proposed audit work for quarters 3 and 4 of the financial year taking into account the available Internal Audit resource required to ensure delivery of the Internal Audit Work Programme 2019/20 and
 - To consider emerging risks and service developments;
 - To ensure the focus of Internal Audit work remains relevant to the Council's vision and current priorities;
 - To be robust enough to be able to provide an opinion on the Council's control environment in 2019/20 the Internal Audit Annual Report and Opinion
 - January 2020 – to determine the scope of audit work to be undertaken during the remainder of the financial year
 - at any other relevant point during the year
- 4.2 In order to preserve the independence of Internal Audit, the final risk assessment and selection of areas for inclusion in the Audit Work Programme rests with the Internal Audit Manager.
- 4.3 Agreement was given to the initial Internal Audit Work Programme for 2019/20 by CMT and GAP Committee Members in May 2019. The 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.
- 4.4 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 Section 151 Officer, CMT and Members.
- 4.5 Internal Audit provides independent assurance on the Council's control framework for inclusion in the Annual Governance Statement; therefore the priority for the Internal Audit Service must be to carry out and achieve the planned work as contained in the Audit Work Programme.
- 4.6 The 2019/20 Internal Audit Work Programme has allocated 250 days for all potential audit work from 01 July 2019 to 31 March 2020.

Key Financial Audits

- 4.7 Key Financial Audits are the statutory audits Internal Audit are required to undertake and are audited on a three year auditing cycle; key financial areas will generally be audited every third year unless circumstances dictate otherwise.
- 4.8 Following the June 2019 review of the Audit Work Programme there are 7 Key Financial Audits scheduled for audit work in 2019/20. The Audit Programme has 70 audit days provisionally set aside for Key Financial Audits:

KEY FINANCIAL AUDITS	provisional audit days
Business Rates	10
Grants & External Funding received	10
Insurance	10
Recovery	10
Treasury Management	10
Asset Management	10
HR & Payroll (combined)	10
TOTAL provisional audit days	70

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

Corporate Audits

- 4.11 Following the June 2019 review of the Audit Work Programme there are 5 Corporate Audits scheduled for work in 2019/20. The Audit Programme has 35 audit days provisionally set aside for Corporate Audits:

CORPORATE AUDITS	provisional audit days
EU Exit	5
Consultants and Agency Staff	10
Equality & Diversity	5
Health & Safety	5
Information Governance	10
TOTAL provisional audit days	35

Other Audits

- 4.12 Following the June 2019 review of the Internal Audit Work Programme there are 17 Other Audits scheduled for audit work in 2019/20. The Audit Programme has 145 audit days provisionally set aside for these Other Audits:

OTHER AUDITS	provisional audit days
Leisure PFI	5
Museum	10
Domestic Waste & Recycling	10
Members' Allowances & Expenses	10
Environmental Health - Business Continuity	5
Environmental Health - Commercial Food Safety	10
Environmental Health - Emergency Planning	5
Environmental Health - Imported Food Controls	10
Environmental Health - Licensing	10
Environmental Health - Enforcement	5
Property Services - Repairs Service	10
Property Services - Right to Buy	10
Property Services - Stock & Voids	5
Wellbeing - Allocations	10
Wellbeing - Homelessness	10
Development Management	10
Section 106 Obligations	10
TOTAL provisional audit days	145

Productive Non-Audit Days

4.13 Productive audit time is also taken up by various non-specific audit work. The Audit Programme has 180 days provisionally set aside for this work:

PRODUCTIVE NON-AUDIT DAYS	Provisional days
Residual Audit Work	90
completion of residual 2018/19 audits.	
Follow-up Work	5
to ensure critical and important recommendations have been implemented	
Irregularity Provision	20
the provision of an independent investigation service on internal matters and to review controls post investigation as part of the core audit function	
Consultancy and General Advice	17
to provide consultancy & advice and to allow for changes in priorities	
Committee and Member related work	12
Committee Report preparation, liaison meetings with the GAP Committee Chair and other Members and dealing with Members' queries; GAP self-assessment.	
Contribution to Corporate Management	20
to include the Internal Audit Manager and Internal Auditor time spent on corporate projects, working groups, elections etc.	
Fraud Related work	10
to include the Internal Audit Manager's National Fraud Initiative Key Contact	

responsibilities and counter-fraud and corruption awareness work	
Annual Governance Statement	6
co-ordination of information and drafting of the Annual Governance Statement	
TOTAL productive non-audit days	180

Unplanned Work

- 4.17 Unplanned work will be assessed and, if judged high priority, carried out in preference to items in the 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.
- 4.18 If judged medium to low priority it will be appraised at in the next Audit Work Programme review and considered for possible inclusion in the 2020/21 Audit Work Programme.

5. Types of Audits

- 5.1 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.
- 5.2 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 or
 - **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 and may incorporate some method of self-assessment and include a level of direct Auditee involvement.
- 5.3 Terms of Reference are copied to Members of the GAP Committee.
- 5.4 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 the Appendix to this document.
- 6.5 All Final Reports are copied to Members of the GAP Committee and posted on the intranet.
- 6.6 Implementation of all recommendations is monitored by Internal Audit through Pentana 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 2019/20 the Internal Audit Manager will present regular Progress Reports to CMT and the Governance, Audit & Performance Committee which will include:
- Details of the work completed by Internal Audit since the last report to the Committee;

- Performance against the Internal Audit Work Programme 2019/20;
- 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 July 2020 to CMT and the GAP Committee on the audit opinions of all audits completed during 2019/20 and give an overall audit opinion on the Council's control environment for the year in the Internal Audit Annual Report and Opinion 2019/20.

7.3 The Internal Audit Annual Report and Opinion will be used by the Council to inform its Annual Governance Statement 2019/20 which will accompany the 2019/20 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