



Internal Audit STRATEGY and WORK PROGRAMME 2018/19

August 2018

INTERNAL AUDIT STRATEGY 2018/19

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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 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 the current financial year.

2. Internal Audit Resources 2018/19

- 2.1 Internal Audit is provided by the Council’s in-house team, comprising of the Internal Audit Manager and two Internal Auditors (1.67FTE).
- 2.2 From 01 August 2017, the Internal Audit Manager was seconded for twelve months to lead the Council’s GDPR Project Team, this secondment has been extended for a further three months until 31 October 2018. To ensure that the Internal Audit service would be able continue to give the level of assurance required, the part-time auditor post was increased to a full time post from 01 August 2017 to 31 July 2018.
- 2.3 The Internal Audit resource for 2018/19 is:

	01/03/18 – 31/07/18	01/08/18 – 31/10/18	31/10/18 – 31/03/19
Internal Audit Manager	0.20 FTE	0.20 FTE	FT
Internal Auditor	FT	FT	FT
Internal Auditor	FT	0.67 FTE	0.67 FTE

- 2.4 Staff absence due to sickness has had a major impact on the Internal Audit service in 2018/19. The figures given in the calculations for the Internal Audit Work Programme in section 4 are based on the expected days available for audit work with the resource detailed in paragraph 2.3 above. Additional external resource may be brought in to ensure delivery of the Audit Work Programme by 31 March 2019.
- 2.5 Special investigations and unplanned work also 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.
- 2.3 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 Work Programme and the Strategic Programme will be taken into consideration.
- 2.4 To be able to provide an acceptable level of assurance on the Council's management of its operational risks, controls and governance; priority will be given to Risk Level 4 and 3 work over any other work on the Audit Work Programme if the provisional audit or productive non-audit days are exceeded.

3. Internal Audit Strategic Programme 2018/19

- 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 April 2018, the Internal Audit Strategic Programme was reviewed in conjunction with the Corporate Management Team (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 Governance, Audit & Performance Audit (GAP) Committee at its May 2018 meeting.

Risk Assessment

- 3.3 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 and the Corporate Plan Delivery Plan and Service Plans;
 - The Corporate Risk Register;

- 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 be audited at least once over a five year period.

4. Internal Audit Work Programme 2018/19

Planning

4.1 The Internal Audit Work Programme for 2018/19 is a rolling programme of planned audit work expected to be undertaken during 2018/19 and is subject to regular review and updating at strategic points throughout the year:

- May 2018 to determine the proposed audit work for quarters 1 and 2 of the new financial year;
- October 2018 to determine proposed audit work for quarters 3 and 4 of the financial year taking into account the available and additional Internal Audit resource required to ensure delivery of the Internal Audit Work Programme 2018/19 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 2018/19 the Internal Audit Annual Report and Opinion
- January 2018 – 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 2018/19 by CMT and GAP Committee Members in May 2018. 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 The 2018/19 Internal Audit Work Programme is risk based as far as is possible, our auditing priorities for 2018/19 are:

1. Corporate Plan & Corporate Plan Delivery and Service Plan actions and Corporate Risk Registers.
2. Key Financials Audits.
3. Other areas considered high risk by the Internal Audit Manager.

4. Specifically requested Directorate & Service High risk areas or services following consultation with the Corporate Management Team and Members.
5. Audits carried forward from the 2017/18 programme and any overdue audits from the 2018/19 Strategic Programme.

4.6 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.

4.7 The 2018/19 Internal Audit Work Programme has allocated 295 days for all potential audit work

Key Financial Audits

4.8 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 being audited every third year unless circumstances dictate otherwise.

4.9 Following the May 2018 review of the Audit Work Programme, there are 7 Key Financial Audits scheduled for audit work in 2018/19. The Audit Programme has 60 audit days provisionally set aside for Key Financial Audits:

KEY FINANCIAL AUDITS	provisional audit days
HR & Payroll (combined)	15
Budgets	5
Cash & Bank	5
Contracts & Procurement	10
Creditors	10
Housing Rents	10
Income Fees & Charges	5
TOTAL provisional audit days	60

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 May 2018 review of the Audit Work Programme, there are 4 Corporate Audits scheduled for work in 2018/19. The Audit Programme has 50 audit days provisionally set aside for Corporate Audits:

CORPORATE AUDITS	provisional audit days
Corporate Counter Fraud	5
Corporate Equality & Diversity	35
Corporate Health & Safety	10
TOTAL provisional audit days	50

Other Audits

4.12 Following the May 2018 review of the Internal Audit Work Programme for 2018/19, there are 18 Other Audits scheduled for audit work in 2018/19. The Audit Programme has 185 audit days provisionally set aside for these Other Audits:

OTHER AUDITS	provisional audit days
Museum	5
Democratic Services	10
Legal Services	10
Community Safety	10
Environmental Health - Enforcement	15
Disabled Facilities Grants	10
Empty Homes & Private Sector Housing	10
Property Services - Planned Maintenance	15
Property Services - Stock & Voids	5
Property Services - Stores	10
ICT Security	10
Building Control Service and Fees	10
Planning - Development Management, Support & Advice	10
Economic Development Service - business parks & communities	10
Economic Development Service - Stansted Airport & LSP economic growth, jobs & prosperity	10
Planning - Enforcement	15
Planning - Neighbourhood Plans	10
Trade Waste and Income Generating Services	10
TOTAL provisional audit days	185

Productive Non-Audit Days

4.13 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 2017/18 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 and 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; provision of advice on general control issues etc.
- **Committee and Member related work** – to include Committee Report preparation, liaison meetings with the GAP Committee Chair and other Members and dealing with Members' queries.
- **Contribution to Corporate Management** – to include Internal Audit Manager time spent on Disciplinary and Grievance Investigations; to include the Internal Audit Manager and 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

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 2019/20 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 2018/19 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 2018/19;
 - 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 2019 to CMT and the GAP Committee on the audit opinions of all audits completed during 2018/19 and an give an overall audit opinion on the Council's control environment for the year in the Internal Audit Annual Report and Opinion 2018/19.
- 7.3 The Internal Audit Annual Report and Opinion will be used by the Council to inform its Annual Governance Statement 2018/19 which will accompany the 2018/19 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