

Agenda Item No:

Report to: Audit Committee

Date of Meeting: 22 March 2010

Report Title: Internal Audit Strategy

Report By: Tom Davies
Chief Auditor

Purpose of Report

To advise Audit Committee of the purpose, authority and principal responsibilities of the Internal Audit Service.

Recommendation(s)

1. That the Audit Committee approves the Internal Audit Strategy.

Reasons for Recommendations

The Internal Audit Strategy sets out in detail the operation of the Internal Audit Service at Hastings Borough Council including internal audit processes, audit planning, performance indicators for the Internal Audit Service and the process for issuing Internal Audit Reports.

The strategy has been compiled in accordance with the CIPFA Code of Practice and aims to meet statutory requirements and the Council's policies and expectations for an effective internal audit function. In order to maintain the overall efficiency and effectiveness of Internal Audit during this period and to develop and adhere to the future challenges facing the Council it is recommended that the principles and objectives contained in this strategy be adopted.



Internal Audit Strategy

2010/11

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Introduction

1. The Council's Internal Audit service is provided by the Audit, Investigations and Procurement Service in the Deputy Chief Executive and Director of Corporate Resources Directorate. The CIPFA Code of Practice for Internal Audit 2006 defines Internal Audit as:
2. 'An assurance function that provides an independent and objective opinion to the organisation on risk management, control and governance by evaluating their effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources'.
3. Internal Audit should be sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgments and recommendations. Furthermore Internal Audit operates in accordance with the four main ethical principles: integrity, objectivity, competence and confidentiality.
4. The Internal Audit Strategy is a high level statement of how the Internal Audit service will be delivered. It lies side by side with the Internal Audit terms of reference and links to organisational objectives and priorities. The strategy would be approved and directed by Audit Committee.
5. This strategy will be reviewed annually. The strategy will enable the service to be provided in a way which will facilitate:

the identification of audit resources required to deliver an audit service which meets the requirements of the CIPFA Code of Audit Practice (2006) and other relevant professional standards

the provision of assurance and an annual internal audit opinion to the Chief Executive; Deputy Chief Executive and Director of Corporate Resources and Audit Committee.

6. The provision of assurance will be in compliance with professional guidelines in compliance with the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit Regulations (Amendment)(England) 2006;

support for the Deputy Chief Executive and Director of Corporate Resources in fulfilling his statutory responsibilities for ensuring proper administration of the Council's financial affairs under Section 151 of the 1972 Local Government Act;

support for the Audit Committee in fulfilling their governance responsibilities as detailed in the Council's Constitution, and the Committee's Terms of Reference.

audit of the Council's risk management, control and governance processes through periodic audit plans in a way which affords suitable priority to the Council's objectives and risks;

improvement of the Council's risk management, control and governance processes by providing line management with advice and guidance as required;

effective co-operation with the external auditor and other relevant review bodies;

provision of both assurance and consultancy services by Internal Audit to Council management

the extent to which reliance can be placed on the work of other auditors and inspectorates

Criteria for determining the Audit Opinion

7. The main objective of the Internal Audit Service is to provide assurance by forming and evidencing an opinion on the organisation's risk management, internal control environment and governance.

8. To determine the Audit Opinion the Internal Audit Service will review, appraise and report upon:

The adequacy of risk identification, assessment and mitigation

The adequacy and application of controls

The extent of compliance with relevant legislation, organisational policies, plans and procedures

The extent to which the organisation's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money

The quality and integrity of financial and other management information utilised within the organisation.

9. In forming his opinion the Chief Auditor will give due regard to the results of work undertaken by the Internal Audit Service in the relevant year including planned work, ad hoc projects and investigations. Reliance will also be placed on the work of external auditors and inspectors.

10. When presenting the Audit Opinion the Chief Auditor will:

Disclose any qualification to that opinion, together with the reasons for the qualification

Present a summary of the audit work undertaken from which the opinion is derived, including reliance placed on the work of others

Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement

Compare the work actually undertaken to the work that was planned and summarise the performance of the Internal Audit Service

Comment on the compliance with the CIPFA Code of Practice for Internal Audit, by completing the CIPFA self assessment matrix.

Who Needs Assurance

11. Assurance is required by all stakeholders including the local community. However to fulfil our statutory responsibilities, formal assurance should be provided to management and 'those charged with governance', which within Hastings Borough Council will be through the Audit Committee.

12. The list below highlights the key stakeholders for assurance purposes:

The Audit Committee, in order to fulfil their Terms of Reference and report to full Council

The Deputy Chief Executive and Director of Corporate Resources, in order to fulfil his statutory duty as Section 151 Officer

The Chief Executive and Senior Management Team

Heads of Service

Service Managers

Other Council officers

Central government

The Audit Commission

External Audit

Other external inspection bodies

Residents

Suppliers

Strategic Aims

13. Through its mission statement and the work it undertakes Internal Audit support the Council in its stated vision which sets out the Council's focus over the coming years. That vision is: 'The renaissance of Hastings through social, economic, cultural and environmental regeneration'. This is underpinned by six themes:

Doing everything we can to soften the impact of the economic downturn on the town's economy and resident's lives

Working closely with our partners to make the town safe and clean

Making sure we're efficient, customer focussed and a good organisation to work for

Promoting equality and an inclusive, supportive community

Tackling climate change and making Hastings more environmentally sustainable

Establish a culture of openness throughout the council

14. Internal Audit's mission is to provide a high quality audit service that gives management reasonable assurance on the effectiveness of the Council's internal control environment and acts as an agent for change by making recommendations for continual improvement. We aim to be flexible, pragmatic and deliver our service in collaboration with management to suit organisational needs. Through a risk based approach we will make a positive contribution to corporate governance arrangements and assist management in developing a framework for achieving objectives within acceptable levels of risk. Within the team we will provide a work environment that is both supportive and challenging to facilitate the development and retention of high calibre staff.
15. In order to support the Council in its vision, to achieve its mission and to support the preparation of the Statement of Assurance on Corporate Governance and the annual audit opinion; Internal Audit will form and evidence an opinion on the organisation's risk management, control environment and governance.
16. Internal Audit will provide the Deputy Chief Executive and Director of Corporate Resources and the Audit Committee with reports and analysis of the adequacy and effectiveness of internal control within each Council system or area of activity under review. Reviews will be undertaken professionally with effective recommendations made aimed at improving systems that support the Council's organisational aims.
17. The Chief Auditor will provide an annual report to the Deputy Chief Executive and Director of Corporate Resources and the Audit Committee that gives his opinion of the overall adequacy and effectiveness of the Council's internal control environment and compliance with the Council's Code of Corporate Governance.

Approval and Review Process

18. The Internal Audit Strategy is approved and directed by the Audit Committee. The strategy remains a live document and will be reviewed at least annually. Improvements, changes in service and relevant professional developments will be incorporated as necessary. Any revised version(s) of the strategy will be presented to the Audit Committee for their approval.

Fitness for Purpose

19. All audit staff will make themselves familiar with the strategies, policies and procedures of the Council, in particular the Council's Constitution and Code of Corporate Governance, Financial Rules, Financial Operating Procedures, Contract Standing Orders, the IT Security Policy and relevant Personnel Policies and Procedures.
20. Audit planning will be mainly risk based and demonstrate a link to strategic and operational risk assessments.
21. The annual audit plan will be agreed with the Audit Committee prior to any work being undertaken.
22. The annual audit plan will be reviewed and updated on an ongoing basis to address emerging risks and any significant amendments will be agreed with the Audit Committee.
23. The Chief Auditor will have direct access to and routinely meet with the Chair of the Audit Committee and will make himself available at the Chair's request.
24. Audit reviews carried out will comply with the CIPFA Code of Practice for Internal Audit (2006) and the Chief Auditor will review all files to ensure consistency.
25. Auditors will aim to complete all reviews within specified timescales to ensure completion of the audit plan.
26. All reports will be reviewed and authorised by the Chief Auditor before issue
27. Final reports will be issued within 10 days of the provision of auditee feedback and agreement of recommendations
28. All key findings will be followed up 3 to 6 months after completion, depending on the assurance level provided.
29. Investigations of suspected fraud and irregularity will be carried out in accordance with Council procedures and relevant good practice/legislation and will be undertaken or supervised by staff with relevant knowledge and experience and in liaison with Police and other regulatory bodies where relevant.

30. Internal Audit staff will be appropriately qualified and/or experienced.
31. Adequate training will be offered to staff to close any identified skills gap.
32. Allocation of audit tasks will be in line with staff qualifications and experience
33. The Council's appraisal system will be utilised to ensure the identification of training and development needs and suitable means of addressing these.
34. All audit staff will ensure they conduct themselves in accordance with the Council's Code of Conduct and relevant professional standards and codes of ethics.

Approach

35. Internal Audit may undertake audits at both strategic and operational level. Strategic level audits address how well internal control is planned and directed while operational level audits consider how well control is executed, i.e. how internal control operates in practice. Consideration will be given to any proposed change within the Council during audit planning. (a detailed breakdown of the processes and tools the team will use to deliver its service is highlighted below in paragraphs 50 - 52).
36. Internal Audit will also rely on the work of other relevant bodies, for example the Council's external auditors, the Audit Commission and other relevant professional inspectorates. The Chief Auditor will work proactively with the external auditor to avoid duplication of effort and ensure audit resources available are used in the most efficient and effective manner.

Comprehensive Area Assessment and Use of Resources

37. The work of the Internal Audit Service aims to support the organisation in the achievement of consistently good results arising from external inspections, in particular Comprehensive Area Assessment (CAA) and Use of Resources (UoR).
38. To achieve this the Internal Audit Service will:
 - be alert to the requirements of Key Lines of Enquiry when undertaking their work and report on these accordingly.
 - provide advice and support as and when required either during or in preparation for such inspections.
39. The Chief Auditor is a member of the UoR Group and as such plays a role in the process.

Value for Money Reviews

40. The P.I.E.R. process is an embedded process involving Senior Managers, Heads of Service, Directors and Members. Efficiencies are captured and monitored through monthly Operational Board meetings.
41. Value for Money Reviews relates to audit work that assesses the economy, efficiency and effectiveness of an activity. Internal Audit work will be planned so as to take account of value for money generally and also of the Council's procurement practices.

Information Systems

42. The Internal Audit Service provides a programme of Information Systems audits on key information technology systems and procedures within the Council. Due to pace of change in information technology, increased IT dependency and the Council's constant development of its IS resources, the provision of effective assurance presents a challenge and as such, audit skills and coverage will need to be continuously reviewed and developed.
43. In addition to the programme of IT audit and on an ongoing basis, auditors will be alert to the possibility of risk related to the use of information and communication technology such as IT Security risk, including resilience and continuity, when undertaking any planned or ad hoc audit work.
44. Within the Internal Audit Service relevant technology will be employed as appropriate when testing systems and when producing working papers. In this regard consideration will periodically be given where appropriate to the acquisition or development of new IT tools.

Special Investigations

45. The Internal Audit service are, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations, special projects and consultancy work as necessary and as requested by the Council.
46. The Presentation and detection of fraud and corruption is ultimately the responsibility of management, as this forms part of management's overall responsibilities. However, the Internal Audit Service is aware of its role in this area and will be alert to the risk of fraud and corruption when undertaking its work. To this effect internal audit will report to management any detected fraud and corruption identified during its work; or any areas where such risks exists.

Partnerships

47. The Internal Audit Service will carry out a review of partnership arrangements within the Council. Strategic partnerships are key to the delivery of some fundamental Council services. Thus partnership agreements will form part of the audit scope.
48. Audit work undertaken will review processes in place to ensure that the governance arrangements of partnerships are sound and provide for a clear definition of responsibilities. It will further seek to establish that clear arrangements exist to determine rights of access to staff, systems information and the governing body of relevant partnerships.
49. The Internal Audit Service should be aware of the existence of all partnerships, and other similar arrangements, for audit planning purposes as this will have implications for the risks faced by the authority.

The Audit Toolbox

50. To facilitate the delivery of the strategy and associated objectives including the annual audit opinion, Internal Audit will utilise a number of different audit techniques, which include:

Planning – A predominantly risk based internal audit plan will be created on an annual basis which will incorporate key risk areas within the Council, in line with strategic and operational risk registers, and the Council’s Risk Management Policy together with cyclical coverage on a 3 year cycle of fundamental systems as listed at paragraph 78.

Risk-based system audits – One of the main ways that Internal Audit will form a view on the overall control system is by carrying out reviews of the component systems and processes established within respective business entities. These are commonly known as risk-based system audits and will allow Internal Audit to assess the effectiveness of internal controls within each system in managing business risks. Thereby enabling a view to be formed on whether reliance can be placed on the relevant system. This approach will enable resources to be used in a more efficient way, while maximising the benefit which could be derived from it.

Compliance/regularity audits – These audits are intended to assess if systems are operating properly in practice. They focus on the propriety, accuracy and completion of transactions made. The audits may focus on specific systems or cover transactions in all major systems. This will also provide information and evidence about the extent, in practice, of compliance with organisational policies, procedures and relevant legislation.

Key Control Testing – A variation on compliance audit but focusing on a small number of material or ‘key’ controls that provide assurance on the completeness and adequacy of the Council’s accounts. This can provide the basis for external

audit to place reliance on the work of Internal Audit as undertaken during the International Auditing Standards work undertaken by Internal Audit annually.

Procurement Audit – This will be a strategic assessment of the risks associated with the Council's procurement activities and future plans. Concerned with review of and compliance with the Council's corporate procurement strategy and associated management structures and processes, including contract procedure rules. This audit will also consider Value for Money aspects.

Systems Development Audit – Phased review of developing plans and designs for new systems and processes aimed at identifying potential weaknesses in control during the development stage thus minimising the need for re-working.

IS Audit – Specialist review of the control of hardware, software and the IT environment to evaluate fitness for purpose and security of the IT environment. This review may be conducted partly in-house and partly by sourcing a specialist Computer Auditor externally for coverage of the technical IT aspects.

Follow up audits – These are designed to test the implementation and effectiveness of previous audit recommendations.

51. **Evidence** – All audit findings, conclusions and recommendations will be evidenced on file. Relevant details on which findings and recommendations are based will also be supported by evidence held on file within the Internal Audit section.
52. **Use of Technology** – Internal Audit will employ relevant technology where appropriate when testing systems and when producing working papers and reports. Additionally Internal Auditors will be alert to IT risk in relation to technology utilised within systems under review.

Relationships

53. The Internal Audit Service recognises that good working relationships and effective communications are fundamental to the delivery of an effective internal audit service. As such Internal Audit will seek to work and co-operate with all relevant stakeholders.
54. The Chief Auditor will consult with management during audit planning. He will also attend regular meetings of the Audit Committee and assist the Committee in meeting its terms of reference.
55. Regular consultations will be held between Internal and External Audit to achieve the most effective audit coverage and to avoid duplication of efforts. As a minimum the Chief Auditor will meet with the External Auditor quarterly and will meet annually to discuss and co-ordinate the respective annual audit plans.
56. With regard to other regulators and inspectors the Chief Auditor will seek to establish a dialogue with such agencies with a view to improving understanding and exchanging relevant information.

57. The Chief Auditor and other team members will also maintain dialogue and networking with other professionals both within Sussex and relevant professional bodies.

Independence

58. Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements. Internal auditors have no direct operational responsibilities.

Method of Service Provision

59. A paper evaluating all other practical methods of service provision is currently being written and will be used to inform the strategy forwards from next year. However, the Council has decided to opt for an in-house provision of the service for this year. This is to ensure that the Council maximises available resources and to ensure a more effective and high quality service. The team is line managed by the Chief Auditor (who reports to the Deputy Chief Executive and Director of Corporate Resources) and formally reports to the Audit Committee. The team consists of the Chief Auditor and 2 full time Group Auditors. Temporary contract staff will be used as appropriate to address resource or skills gaps, in particular to address any resource shortfall caused by vacancies and to meet technical IS audit requirements. The Chief Auditor will periodically monitor and review the establishment to ensure that resources are adequate to meet the assurance requirements.

Skills and Resource Requirements

60. In order to deliver the Internal Audit Strategy and the Annual Audit Plan the appropriate resources and skills will be required. Internal Audit staff will be appropriately qualified and have suitable audit experience. Appropriate professional qualifications are CCAB, IIA or AAT and currently, all members in the team are members of one of these associations. A staff competency matrix will be utilised to identify technical, professional, interpersonal and organisational competencies. Relevant training needs will be developed following an assessment of those skills. Personal development plans will be prepared for all audit staff following the skills gap analysis.

Reporting

61. Following completion of the audit fieldwork a formal feedback will be provided to the relevant auditee. The feedback process will include the agreement of findings, conclusions and recommendations. The audit report will be issued electronically within 10 working days of the feedback meeting to the appropriate Head of Service and Director. A copy of the final report will be issued to the Chief Executive, Deputy Chief Executive and Director of Corporate Resources, relevant Director, relevant Head of Service and External Audit. The Audit Committee will receive a summary report of each audit report issued (including the recommendations action plan) and a full copy of the report where the opinion is "D: Poor".

62. It will be the responsibility of management to ensure that all agreed actions arising from an audit report are implemented in accordance with the timetable they have agreed.
63. Where material weaknesses are identified through audit work which have not been actioned procedures allow for escalation to Management Team and the Audit Committee.
64. The formal audit opinion will be included in the annual report to the Audit Committee which will be provided no later than the date at which the Council's annual accounts are approved. The annual report will contain the following information:
65. The Chief Auditor's opinion on the overall adequacy and effectiveness of the Council's internal control environment. This shall include any qualifications, together with the reasons for the qualification, and any issues that are particularly relevant to the preparation of the Annual Governance Statement;

A summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;

Any areas of significant risk to the Council

Performance for the reporting period including a comparison of the work actually undertaken against the work planned and achievement of its performance measures;

Details of any external quality assurance or review work undertaken on the Internal Audit Service and compliance with the CIPFA Code of Practice.

Quality Assurance

66. Internal Audit deploys the cornerstones of quality assurance in order to ensure that the Deputy Chief Executive and Director of Corporate Resources, the Audit Committee and senior management can have confidence in the Internal Audit Service. These cornerstones include:

Internal Audit Governance by reference to its adoption of the CIPFA Code of Practice, which incorporates relevant legislation

By reference to local structures such as the Audit Manual, the audit time recording system and Key Performance Indicators (KPIs)

The Key Elements of Supervision

67. All files are subject to review by the Chief Auditor before feedback is provided to the auditee. This review will ensure that work undertaken complies with the standards defined in the Audit Manual and the CIPFA Code of Practice.

Quality Assurance (QA) Reviews

Internal QA Reviews

68. In addition to ongoing review of the quality of audits undertaken and performance against KPIs an annual assessment of the effectiveness of Internal Audit is undertaken to comply with the Accounts and Audit Regulations, the CIPFA Code of Practice and associated best practice. This review is undertaken by the Chief Auditor using the standard self assessment template in compliance with professional guidance and is reviewed by management. The result of this review, together with any associated service improvement plan, is reported to CMG and the Audit Committee.

External QA Reviews

69. Internal Audit's work on key financial systems is reviewed annually by the Council's external auditors. In addition to this a full review of Internal Audit is periodically undertaken by external audit.

Requirements for Continuous Improvement

70. The Chief Auditor and members of the Internal Audit team shall seek to ensure continuous improvement of the service through an annual review of its own procedures and arrangements with a particular emphasis on maximising performance levels.
71. Hastings Borough Council Internal Audit Service is a member of the Sussex Audit Group (SAG) and Sussex Information Systems Audit Group. These forums will be utilised to share good practice, develop consistent working practices where relevant and to undertake benchmarking via standardised criteria.
72. All Internal Audit staff will be responsible for ensuring they achieve continuous professional development, including membership of professional bodies and by participating in relevant CPD opportunities.
73. Training and development needs will be identified and addressed using the standard competency matrix and by identifying skills gap for each staff.
74. Where relevant, consideration will be given to the acquisition or development of new IT tools to improve the efficiency and performance of staff.
75. Action plans will be developed where relevant to follow up issues identified in previous quality assurance reviews with timescales defined. Such plans will be regularly monitored via one to one and team briefings.

Key Performance Indicators

76. 3 performance indicators are maintained covering Quality and Customer Satisfaction. Performance against these areas will be reported to the Audit Committee in the Internal Audit Annual Report.

KPI 1: The need to ensure that the Audit Plan is completed to a good practice level (90%)

KPI 2: That the External Audit is satisfied with the work of Internal Audit as Expressed in their annual audit letter

KPI 3: That client feedback exceeds 80% favourable

Conclusion

77. This document describes the way in which Internal Audit operates and will be formally review annually.

Fundamental Systems Audits

78. Council Tax
National Non-Domestic Rate
Cash & Bank Reconciliations
Payroll
Housing & Council Tax Benefit
Main Accounting Systems
Treasury Management
Debtors
Creditors

Wards Affected

None

Area(s) Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	No
Human Rights Act	No
Organisational Consequences	Yes

Background Information

HM Treasury Audit Policy & Advice May 2002: Government Internal Audit Standards, Good Practice Guide Audit Strategy

The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Officer to Contact

Tom Davies
tdavies@hastings.gov.uk
Tel: 01424 451524
