

Draft new INTERNAL AUDIT STRATEGY 2013/14

Purpose

1. The purpose of the Audit Strategy is to set out the strategic approach which allows the Chief Internal Auditor to manage the audit service in a way that will facilitate:
 - A sufficient review of the Authority's functions in order to form an annual opinion on the effectiveness of the control framework. This opinion forms part of the Annual Governance Statement, a statutory requirement.
 - An assurance on the organisations governance and control arrangements, including risk management, through the annual audit plan in a way that gives suitable priority to the organisations objectives and risks
 - Improvement of the organisations governance, control and risk management, by highlighting exceptions to line management and agreeing mitigating actions
 - The identification of audit resources and that they are suitably qualified and experienced as required by the Cipfa Code of Practice for Internal Audit in the UK
 - Effective co-operation with external auditors
 - Value for money including selling of specialist skills to fee paying customers and joint working/shared arrangements
 - Reactive work such as advice and investigations that add value to the organisation in meeting its objectives
 - Horizon scanning to ensure the inclusion in the audit risk analysis of key areas likely to impact on the organisation
2. The Chief Internal Auditor is required to produce an Annual Plan for each financial year that translates into a schedule of audit assignments. It defines the area and duration of each audit based on each audit's programme, risk assessment, national or local impacts, time spent in previous audits, any problems encountered and level and skill of staff involved.
3. All of these activities assist Services and the Organisation to manage governance, risk and assurance as a contribution to achieving the objective of creating a great waterfront city

Scope and Responsibilities

4. The scope and responsibilities relating to Internal Audit are specified in Financial Rules as well as in the Audit Charter and Terms of Reference.

Audit Opinion

5. The overall Annual Audit Opinion will be delivered in the Annual Report and will be based on the effectiveness of controls tested within the control framework.
6. Evidence for this opinion will be based on the coverage of the Audit Plan and the overall level of critical and high exceptions found on each of the Audits.

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7. Critical exceptions are those exceptions seen as “show stoppers” i.e. control failures or weaknesses that could lead to prosecution or the imminent collapse of a system or service that would result in reputational and financial damage. These will be reported to Members along with the managers proposed actions or actions that have been taken.
8. High risk exceptions are where action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not “show stopping” but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. If there are several high risk exceptions in one area Internal Audit will highlight these to Members along with the managers response
9. Depending on the level of critical and high risk exceptions in comparison to the number of reviews carried out then the opinion could range from no assurance through limited assurance to full assurance. The levels and control framework areas of critical and high risk exceptions will also be compared to previous year’s levels to give an indication of improvement, or otherwise, in the effectiveness of the control framework.
10. To widen the assurance scope and maximise resources, Internal Audit will, wherever possible, rely on the assurance work of others. This is only where they have satisfactorily tested documentation, the level of testing and reporting for objectivity, integrity, accuracy and sufficiency. To this end self assessment checks are being promoted in some areas which will be spot checked by Internal Audit for integrity.

Service Provision

11. There is an in-house mix of full and part time audit staff totalling 9.2 FTE for the provision of the Internal Audit Service, with a proportion being sold to other local authorities and external organisations. The Cipfa Code of Practice for Internal Audit in the UK requires that staff are suitably qualified and experienced. All staff in Internal Audit either have a relevant qualification (CCAB or IIA) or are in training to become qualified, in addition senior staff have several years internal audit experience. Staff specialise in specific areas and mentor other staff as successors; for example the Principal Auditor specialising in Contracts and Procurement mentors a junior member of staff in that specialism, as part of their development.
12. Audit skills and resources are matched to the areas to be audited and any high risk audits that will not be covered are brought to the attention of the Corporate Governance Group which consists of the Chief Executive, Monitoring Officer, S151 Officer and Head of Legal HR and Performance as well as the Members of the Governance and Audit and Standards and Standards Committee, for them to make a decision on Audit resourcing.
13. In order to maximise resources between the External Auditors and Internal Audit, the Chief Internal Auditor and the External Audit Manager try to take

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into account where their resources can be shared. External Audit are allowed to place reliance on Internal Audit work, where they can, in order to form their opinion on the Authority's accounts. It may in some cases be more cost effective for Internal Audit to carry out some of the system work. However, this depends on Internal Audit priorities and resources available at the time. To this end the Audit Plan risk assessment takes into account (amongst other things) the External Audit interest in the Authority's financial systems.

14. The responsibility for fraud detection and investigation rests with managers. However, investigations have always been part of the audit function because of the independence of the function and the possession of the investigative and evidence gathering skills required and in order to identify weaknesses in control to prevent re-occurrences. Three audit staff are qualified in Internal Investigations, two are qualified in forensic PC investigations and one is undergoing Financial Investigator Training.
15. There are some non-audit duties that are carried out because they sit within the audit skill mix and these are RIPA (Regulation of Investigatory Powers Act), and Anti Money Laundering investigations and reporting as well as counter fraud activities.
16. The Chief Internal Auditor also drives the project for the on-going review of Financial Rules and their cascade to staff under the direction of the S151 Officer.

Consultation

17. The Chief Internal Auditor and Deputy Chief Internal Auditor consult with the Chief Executive and Strategic Directors, all the Heads of Services and the Chair of Governance and Audit and Standards prior to the start of the new financial year, requesting any additional items or other comments as well as the Strategy Unit re Partners and Partnerships.
18. In order to preserve the independence of Internal Audit the final risk assessment and inclusion in the Annual Plan rests with the Chief Internal Auditor.

Assignments

19. The determination of the audit universe and scope of Internal Audit is defined in the Audit Charter and Terms of Reference. The Annual Audit Plan is derived from the audit universe based on risk however the Plan must also make provision for the following areas regardless of any risk assessment;
 - **Data matching exercise**– a compulsory exercise matching records between authorities to identify any fraudulent claims. This is carried out every two years,
 - **External services- Gosport and Eastleigh Council, Bournemouth Council and Langstone Harbour Board (LHB)** – The LHB is part funded by PCC. At the Board's request we carry out an annual Internal Audit charged directly to them. We have an agreement with the aforementioned councils to provide some IT Audit,

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- **Follow-up Audits** – To ensure that critical and high exceptions have been implemented as agreed,
 - **Reactive work (Advice and unplanned work)** – 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 Rule Waiver requests,
 - **Special Investigations** – To provide an independent investigation service on internal irregularities that require investigative and evidence gathering skills. Also to review controls post investigation as part of the core audit function,
 - **Fundamental Financial Systems** – including Payroll, main accounting and others as agreed with the External Auditors,
 - **Audit slippage-** Audits started at the year end will often be completed in the early part of the new financial year.
 - **Deferred Audits-** High risk audits that have been deferred because the activity has been deferred or the programme has slipped for example,
 - **Counter fraud activities** – including proactive anti fraud checks, education and updating of policies,
 - **Spot checks on self assessment of control activities,**
 - **Certification of some grant claims,**
 - **Emerging high risk areas** (These are generally activities that are identified as high risk from another audit review during the year but due to limited audit resources are deemed priority for the following year's audit plan).
 - **Continuous audit on corporate risks as determined by the Strategic Directors Board**
20. The Financial Management Standard in Schools has undergone significant change and is no longer subject to external assessment. As well as this some schools are no longer under PCC jurisdiction. Therefore, the establishment audits of schools will no longer form part of the Audit Plan unless requested. Where there have been highlighted risks across schools still under the jurisdiction of PCC the Audit Plan will include themed cross cutting audits of schools.

Priority

21. The Accounts and Audit Regulations require that Internal Audit provide independent assurance on the control framework (the Audit Opinion) for inclusion in the Annual Governance Statement (AGS) therefore, the priority for the Audit Service must be to carry out and achieve the planned work as contained in the Annual Audit Plan.
22. Once the items listed in paragraphs 18 and 19 have been taken into account all other areas identified as being within the Audit remit will be subject to an Audit Needs Risk Assessment (ANRA).
23. The Audit Needs Risk Assessment takes into account three key areas: Size, Control and Detection. Within these headings are further sub headings as

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detailed below, with different weightings a key one of which is the date of the last audit;

- **Size;** Value of income or expenditure or size of budget; Number of Employees involved in the activity; Risk impact; Alignment with corporate objectives,
- **Control;** Impact of management and staff; Third party sensitivity (i.e. local or national interests and impacts e.g. external assessments, central government priorities etc); Standard of Internal control; Likelihood of occurrence of risks,
- **Detection;** Likely effectiveness of internal audit; Duration of the audit; Length of time since the last audit; Effectiveness of other assurance providers.

24. The Section is resourced to cover only high-risk audits with an allowance for reactive work.
25. Reactive work is prioritised and may be carried out in preference to items in the Audit Plan if assessed as immediate priority (by either the Investigation Steering Panel if it is a financial irregularity investigation or by the Chief Internal Auditor if a review needs further Audit work) in accordance with the following criteria;
- Risks if the work is not carried out,
 - Impact on the Audit Plan,
 - Whether the work can be left until the Plan is reviewed or is immediately required.

Horizon Scanning

26. New areas of emerging risks were highlighted in the last year's Strategy. Although provision was made in the 2012/13 Audit Plan some of these activities were only outlines of proposals so there was little to audit in some areas other than a watching brief. Now that these areas are becoming more defined further provision is proposed in the 2013/14 Audit Plan. The areas concerned are:
- Public Health Duties (Health and Social Care bill) which may bring risks because of differences in such things as staff management, accounting periods, VAT claims, risk and insurance treatment as well as due diligence, commissioning risks, financial resilience and value for money
 - Social enterprises which may result in the organisation facing a number of applications that could inter alia; divert resources, lead to redundancy costs, increases in monitoring costs.
 - Academies as more schools choose to become academies it may reduce the resources left to support remaining schools.
 - Reduction in inspection and performance regimes resulting in a possible loss of governance and/or increased work pressures for Internal Audit for example on assisting with assurance reports to support the accounts.
 - Recessional difficulties as well as the austerity measures introduced by the Government could impact on the financial stability and contingency

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- arrangements of third parties that contract with the Council,
- The impact of budget cuts on Children's Social Services and Adult Social Care increases the risks on service delivery,
 - The risks to property assets in particular landlord responsibilities and maintenance due to budget cuts,
 - Proposed changes in local government funding e.g. the impact on Council Tax.
 - The changes made as a result of transformation of services which could lead to added risks of not realising projected efficiency savings if not embedded corporately or estimates prove incorrect due to other unforeseen issues
 - Budget savings which could impact on existing system controls and adding risk because of loss of experienced staff, removing layers of management, reducing scope for separation of duties, pressures on service delivery etc

Flexibility

27. The Audit Plan will be reviewed six monthly to take account of any significant changes in priority that have occurred during the year.

LW Graham

Chief Internal Auditor

References: Audit Charter and Terms of Reference and Audit Manual;

CIPFA Code of Practice for IA in UK;

Accounts and Audit Regulations 2011;

Money Laundering Regulations 2006.