



# **INTERNAL AUDIT STRATEGY**

**2009 TO 2013**

## 1 Introduction

1.1 Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment. Internal audit plays a vital part in advising the Council that these arrangements are in place and operating properly. On behalf of the Council, internal audit review, appraise and report on the efficiency, effectiveness and economy of these arrangements. This document outlines the Internal Audit Strategy for 2009/10 to 2012/13 which will culminate in the Head of Audit's opinion on the adequacy of the Council's control environment.

## 2. Background: The Council

2.1 Shropshire has a vision to:

“Improve significantly the quality of life, for Shropshire people by working together”.

2.2 In order to deliver this Shropshire Council has four aims:

- To give children and young people the best opportunities today and for the future.
- To improve the health and well being of Shropshire's residents.
- To ensure safe and strong communities for everyone in the county.
- To build sustainable communities for local people to live and work in Shropshire.

2.3 To endorse the vision and aims Shropshire Council's values determine the culture of the organisation, intent and direction of the way we deliver services to our customers as well as what we deliver.

We will:

- Focus on meeting the needs of our customers.
- Value each other and achieve more by working and learning together.
- Use the resources we have responsibly.
- Recognise the value difference can make and treat everyone with respect.
- Build trust by expressing ourselves responsibly and honestly.

2.4 In the work of Internal Audit we aim to contribute to management's achievement of the vision, corporate aims and delivery against the values.

### 3. **Background: Regulatory**

3.1 The requirement for an internal audit function is contained in the Accounts and Audit Regulations 2003 (as amended 2006) which require the Council to:

“maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.

3.2 The internal audit service also assists the Director of Resources in discharging her delegated responsibilities under Section 151 of the Local Government Act 1972 which requires that authorities:

“make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.

In addition, internal audit makes a key contribution to the Authority's Comprehensive Area Assessment particularly the internal control element of the Use of Resources.

3.3 The regulations, and related guidance, also lay down far-reaching requirements regarding systems of internal control. They require the Council to:

- Have a sound system of internal control.....which includes arrangements for the management of risk.
- Conduct a review at least once a year of the effectiveness of its system of internal control.
- Prepare and publish an Annual Governance Statement.

The Regulations and Code require a much wider role for internal audit compared to the historical focus on financial systems. The scope of internal audit therefore encompasses virtually every management control system, covering every risk in corporate and departmental risk registers. These requirements aim to bring local government practices into line with the private sector and other parts of the public sector.

3.4 It is best practice to regularly review the terms of reference for the internal audit service. This document, which was approved by the Audit Committee in November 2009 is reviewed annually. The Terms of Reference of Internal Audit provide further details and are an integrated

part of the strategy.

#### 4. **Definition of internal audit**

##### 4.1 The Code defines internal audit as:

“an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment, by evaluating its 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.”

Whilst audit’s main role is to provide an opinion on the control environment, the Code states that internal audit may also undertake non-assurance work at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources. This can include advice, training, facilitation and fraud or irregularity related work.

##### 4.2 The Code defines the control environment as comprising the systems of governance, risk management and internal control. The key elements of the control environment include:

- “Establishing and monitoring the achievement of the organisation’s objectives.
- The facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the organisation, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties.
- Ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- The financial management of the organisation and the reporting of financial management.

- The performance management of the organisation and the reporting of performance management.”

## **Our vision, purpose and values**

### 5.1 Our overall purpose is to :-

- Provide assurance on internal controls by providing an effective risk based, professional internal audit service and improve the overall level of internal control and management of risk within the Council. Hence we assist management to achieve the Council’s vision and aims.

### 5.2 As a modern effective internal audit service our aspirations are to:

- Provide assurance on and monitor the control framework.
- Add value and assist the organisation in achieving its objectives with the knowledge of where the Council wishes to be and aware of the national agenda issues that impact on the audit plan of the Council.
- Be innovative and challenging, supporting initiatives i.e. lean systems review programme.
- Help to shape the high ethics and standards of governance of the Council.
- Seek opportunities for sharing best practice with other organisations’ auditors and working with other bodies on preventing and detecting fraud (e.g. NFI).
- Work in partnership with other support services.
- Be more pro-active rather than reactive.

### 5.3 Key drivers of this strategy are to meet the needs of our customers and to comply with the CIPFA Code, as outlined earlier. Our customers will continue to be affected by a variety of local and national issues:

- Increased growth in partnerships, for example with health and the private sector, and particularly the local area agreement.

- Ever increasing use of technology to deliver services.
- Flexible working arrangements to make more effective use of accommodation.
- The introduction of new ways for customers and the public to access and influence services (e.g. Local Joint Committees and use of the web).
- Pressure to reduce the cost of administrative/support functions whilst improving quality/effectiveness.

These, and other developments, will mean increased pressure on the audit service to review existing systems and provide advice on new and complex initiatives within existing resources.

#### 5.4 To deliver on our vision we will:

- Add value and make best use of our resources by focussing on key risks facing our customers.
- Continue to develop our staff to ensure we are fully equipped to respond to our customers' demands.
- Continue to work with Audit Committee Members to deliver a dedicated training programme.
- Review our practices and procedures against best practice and continue to invest in modern technology to improve efficiency and effectiveness.
- Continue to be pro-active rather than reactive as resources allow, by providing advice at workshops, meetings and working parties.
- Continue to work in partnership with clients to improve controls, performance and add value.
- Listen to feedback from our customers so as to improve the service.

## 6. **Audit approach: How we work, forming and evidencing an opinion on the control environment.**

6.1 In accordance with the Code, most individual assignments are undertaken using the risk based systems audit approach, the key elements of which are listed below:-

- Identify and record the objectives, risks and controls.
- Establish the extent to which the objectives of the system are

consistent with higher level corporate objectives.

- Evaluate the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose.
- Identify any instances of over and under control.
- Determine an appropriate strategy to test the effectiveness of controls, i.e. through compliance and/or substantive testing.
- Arrive at conclusions and produce a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.

Our role is, through a risk based approach, to provide assurance to management on the effectiveness of internal controls and the control environment which is given in the Head of Audit's annual opinion. In turn this supports an opinion on whether risks and opportunities relating to the corporate objectives are being managed effectively. This opinion is a source of assurance which feeds into the Audit Committee's annual report to Council and the Council's Annual Governance Statement. To reduce duplication of effort we will work in partnership and place assurance on the work done elsewhere in the Council.

- 6.2 The use of a computerised audit management and working papers system is being explored to streamline working practices which are based upon best professional practice.

## 7. **Risk Assessment Methodology**

- 7.1 The methodology adopted in preparing the audit plan is a step process as follows:-

- a) Identify the audit universe i.e. all potentially auditable areas by reference to the Council's plans, structures, budgets and discussions with senior officers.
- b) To risk score and rate all audit areas using an internally developed risk model taking into account a range of factors including gross expenditure and income figures, risk rating, volume of transactions, level of devolution, delegation, externalisation, systems stability, complexity and technology, control environment, potential for fraud, political sensitivity, delivery of corporate objectives and the District Auditor requiring assurance.
- c) To use the risk score to determine frequency of audits.
- d) To calculate the total number of audit days available deducting commitments and allowances for non assurance work, contingencies for advisory, unplanned (i.e. unforeseen

commissioned) work and special investigations leaving the bulk of time available for risk based audits.

- e) Matching the risk based model resource requirements with actual resources available and assessing the adequacy of coverage necessary to deliver the annual audit opinion. Considering the benefits of any externally provided support, as demands require to help with the mix of resources required to deliver the planned work.

7.2 A four year risk assessed strategic plan is prepared and agreed with the Section 151 Officer and the Audit Committee. From this is produced the annual audit plan and each year the strategic plans are based on past history and knowledge, discussions with senior officers in each of the service Directorates for them to highlight key issues, changes to systems procedures, routines and areas where they have concerns. Detailed discussions are also held with the Section 151 Officer and the External Auditors. Account will also be taken of the strategic and operational risk registers to ensure that no key risks are overlooked. In addition the Head of Audit regularly attends various professional networking meetings which highlight the wider issues affecting local government internal audit which will need to be reflected in the internal audit plan.

7.3 To maximise the benefits of limited audit resources, achieve savings for the Council in external audit fees and avoid duplication of audit work, the service liaises closely with the Council's external auditors. Our objective is for external auditors to fully rely on our work and to agree a split of work on fundamental financial systems that are acceptable to both parties.

7.4 The process adopted is consistent with that advocated in the CIPFA Model Audit Manual and ensures that the audit plan addresses the key risks facing the Council.

7.5 A continuing role of internal audit is to review and support the risk management process. Risk management is embedded and increasingly the audit process is based upon the Council's own assessment of risk as contained in the corporate and directorate risk registers.

## 8. **Audit Plan**

8.1 The Plan balances the following requirements:

- The need to ensure the approved plan is completed to a good practice level (currently at least 90%).
- The need to ensure that systems audits with a high risk ranking should be completed and that fundamental financial systems audits agreed with External Auditors are completed irrespective



of risk score.

- The need to appropriately review other strategic and operation arrangements.
- The need to complete the Financial Management standard in Schools programme to allow the Section 151 Officer to sign off the Section 52 Statement.
- An allocation to undertake proactive counter fraud work and actively participate in the National Fraud Initiative.
- A contingency allocation:-
  - To conduct special investigations based on historical trend patterns.
  - Of uncommitted time available to deal with unplanned issues which may need to be investigated.
  - Of time to support key projects and developments throughout the year, examples of which include the Lean System Reviews and to respond to officers adhoc requests for help and advice on internal control and financial management issues.

8.2 Finally, the plan is intended to be flexible. There will inevitably be circumstances where the Head of Audit, in agreement with the Section 151 Officer, will have to amend the annual audit plan e.g. when a major irregularity investigation is required, risks change or a specific project becomes a matter of priority. The plan includes a reasonable amount of contingency time to cope with the usual level of demand but there may be cases where individual lower priority audits have to be rescheduled because of competing priorities. Throughout the year the plan will be updated to ensure it remains relevant. In year changes to the plan to reflect such changes are accepted as best practice and agreed and approved by the Director of Resources as the Section 151 Officer.

8.3 This audit plan, therefore, is not set in “tablets of stone”. It will be constantly monitored and will need revising and updating as circumstances change. The Audit Committee will be kept informed of any significant changes to and progress against the plan through regular progress reports. The Director of Resources has the authority to agree changes to the base Audit Plan.