Huntingdonshire

district council

Internal Audit Strategy

2007 – 2010

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Introduction
This document sets out the Council's Internal Audit Strategy for the period to March 2010. It is intended to demonstrate how Internal Audit will support the overall aims and objectives of the Council and meet the requirements of its terms of reference in a way that will allow it to:

- provide an opinion on the internal control environment[1] to support the completion of the Annual Statement of Assurance on Corporate Governance which incorporates those internal control aspects required by the Accounts and Audit Regulations 2003[2];
- prepare audit plans that give suitable priority to the Council's objectives and key risks and concentrate resources on areas that have been identified as being the most vulnerable;
- agree actions with managers at the conclusion of each piece of audit work that will assist in continuous service improvement and reduce the risks being faced;
- identify the audit resources required to deliver an audit service that meets required professional standards; and
- provide regular reports to the Corporate Governance Panel.

CIPFA Code of Audit Practice
The Audit & Risk Manager shall ensure that the standards contained within the CIPFA Code of Audit Practice shall be applied to the work of the Internal Audit Service. Any standards that cannot be complied with in full shall be discussed with the Director of Commerce and Technology, as the Council's "Chief Financial Officer", and agreement reached as to the alternatives to be accepted. Substantial differences shall be reported to the Corporate Governance Panel.

Corporate Governance Panel
The Council has established the Corporate Governance Panel. The Panel will undertake the functions of an "Audit Committee", as detailed in Standard 4 of the Code of Audit Practice by receiving information on or approving the:

- terms of reference for Internal Audit
- Internal Audit strategy
- resourcing of Internal Audit
- periodic plans of Internal Audit, progress in achieving them, significant matters that may jeopardise its delivery, any material changes made including implications arising from audit report findings and opinions.
- adequacy of management response to Internal Audit advice and recommendations
- Audit & Risk Manager's annual report
- arrangements for and the results of quality assurance and performance management processes
- arrangements made for co-operation between Internal Audit, External Audit and other review bodies.

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[1] The control environment comprises risk management, control and governance processes. Further information is available in the glossary.
[2] As amended by the Accounts & Audit (Amendment)(England) Regulations 2006

Audit Needs Assessments and Strategic Planning

All internal audit work undertaken shall follow the risk based systematic approach[3]. A schedule of risks and audit needs assessment (ANA)[4] shall be prepared. It shall be based primarily upon the assurance framework adopted by the Council under the Code of Corporate Governance.

The ANA shall determine the relative importance of the risks identified, the frequency with which each risk should be audited, and the anticipated resources required to audit those risks.

Annually, in February, a four year strategic plan based upon the ANA shall be prepared. The strategic plan shall initially be determined without regard to any constraints (such as the staff resources available). The number of days allocated to audit areas in the strategic plan shall be the Audit & Risk Manager's best estimate based upon the risk priorities, the scope of the audit and previous audits carried out.

If after allocating resources to audits a shortfall of resources occurs over the four year strategic plan period, then the Audit & Risk Manager shall discuss the shortfall with the Director of Commerce & Technology. The Audit & Risk Manager will report annually, to the Corporate Governance Panel the consequences of the shortfall (reduced frequency of audit coverage, the increase in risk that this may bring, and the robustness of the Audit & Risk Manager's annual internal control opinion). The Panel shall recommend to Cabinet whether or not to accept the consequences identified or request an increase in Internal Audit's resources.

The Audit & Risk Manager shall consult service managers every six months to ensure that the ANA and strategic audit plan appropriately reflects the current operational, financial and business risks facing the Council and risks arising from national initiatives or developments.

The Audit & Risk Manager shall determine, after taking into account the level of resources available, the audit coverage over the four year period. This decision will have regard to the Council's responsibilities under the Accounts and Audit Regulations 2003, and the expectations placed upon Internal Audit by the external auditors and other outside organisations.

Risk Registers & Assurance Frameworks

The identification of key operational, financial and business risks facing the Council was completed in August 2006. The Audit & Risk Manager has responsibility for the development of the Council's risk management processes, including the risk registers, and as such is able to rely on them, together with his own assessments, for compiling the ANA.

The Council continues to implement its assurance framework in support of the Annual Statement of Assurance on Corporate Governance. The framework identifies and records the risks and barriers to successful service delivery and achievement of the Council's objectives. As the framework develops it will be used to supplement the ANA.

If at any time the Audit & Risk Manager believes that the risk register or assurance framework is not fit for purpose he shall undertake such additional work as he considers necessary to prepare the ANA.

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[3] See glossary
[4] The audit needs assessment is an essential audit planning tool used to ensure there is a link between the level of risk associated with a particular area and the level of internal audit resources directed to that area.

Annual Audit Opinion
Each year the Audit & Risk Manager will provide his opinion on the effectiveness of the internal control environment to the Chief Officers' Management Team and the Corporate Governance Panel. It will be influenced by the individual opinions provided for each piece of audit work undertaken and the progress made by managers in implementing previously agreed actions.

The opinion shall be supported by sufficient, reliable and relevant evidence.

Annual Audit Plan
The strategic audit plan shall be used to prepare annual audit plans.

After consulting with the Chief Officers' Management Team, Directorate Management Teams and the Corporate Governance Panel the Audit & Risk Manager shall prepare/amend the annual audit plan as he feels necessary. Ownership of the annual plan rests with the Audit & Risk Manager although it shall be formally agreed by the Director of Commerce & Technology. The agreed plan shall be presented to the Corporate Governance Panel for information.

The Audit & Risk Manager's decision on which areas to include in an annual audit plan shall take into account the Council's requirement to provide an annual corporate governance statement that includes reference to the internal control environment. Audits may be included in the plan where the risks are able to be audited in respect of individual systems (e.g. Council Tax) or where the identified risks apply to systems and processes across the whole Council (e.g. the recruitment process). When deciding which areas are to be included in the annual plan consideration will also be given to the work that is being undertaken by other assurance providers and the opinions they are able to provide.

Within the control environment there may be certain high risk systems or processes which will need to be reviewed annually in order to allow an opinion to be reached.

Annual coverage will need to encompass a broad range of risks in order to give credibility to the comprehensiveness of the opinion.

The Annual Plan will consist of a brief description of the areas to be covered during each audit, the customer/Head of Service responsible for the audit area (including receiving and dealing with the report), and the number of days allocated for the audit assignment.

The annual audit plan shall be posted to the Intranet for the information of Members and senior managers.

Delivering the Internal Audit Opinion
A number of different audit techniques will be used to deliver the annual audit plan and consequently, the annual audit opinion. These are:

> **Risk based system audit reviews.** The documentation, evaluation and testing of financial, operational and management information systems. These reviews, based on the standards laid down in the CIPFA Code of Practice and the Internal Audit Manual, provide much of the evidence to support the Internal Audit & Risk Manager's opinion on the adequacy and effectiveness of risk management and internal control.

ICT Audit. Specialist control evaluation of hardware, software and the ICT environment.

Fundamental financial systems tests. Reviews focusing on key controls that provide assurance to the external auditor on the completeness and adequacy of the Council's accounts.

In addition to these three main areas of work internal audit shall also provide control advice on new and developing systems and investigate potential cases of fraud and abuse.

Control advice on new and developing systems. This is a preventative activity designed to add value to the Council. Internal Audit expertise on control and best practice in systems is used to assist those responsible for developing systems and creating new systems.

Investigation of potential cases of fraud and abuse. Enquiries into cases of discovered or reported irregularity including, where required, liaison with the police and other investigatory bodies.

Audit Reporting

Internal Audit Reports
The Audit Manual shall contain the detailed reporting procedures that internal audit staff are required to follow.

All audit work completed shall be reported in writing to the appropriate Director and the Director of Commerce & Technology. Draft audit reports should be issued within 15 working days of the completion of the audit fieldwork. Final audit reports should be issued within five working days of confirmation of the agreed action plan.

Implementation of Agreed Audit Actions
It will be the responsibility of managers to ensure that all agreed actions arising from an audit report are implemented in accordance with the timetable they have agreed.

The Audit & Risk Manager shall maintain a record of all agreed actions relating to internal and external audit reports. He shall report quarterly to each Director on the progress achieved towards their implementation. Each Director shall take appropriate action to ensure that agreed actions are implemented.

The Audit & Risk Manager shall identify to the Director of Commerce & Technology as S151 Officer, any actions that have not been introduced that have a material affect on the control environment. The Director shall take appropriate action to ensure that the agreed actions are implemented.

Reports to the Corporate Governance Panel
The Audit & Risk Manager shall submit to the Corporate Governance Panel, no later than the date at which the Council's annual accounts are approved, his annual report and formal audit opinion. An interim progress report on the performance of the service and any emerging issues covered in the annual report shall be submitted six months later.

Annual reports should include the following information:
- The Audit & Risk Manager'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 Corporate Governance statement;

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

Reporting to the Director of Commerce & Technology

The Audit & Risk Manager will meet on a monthly basis with the Head of Financial Services to discuss performance and other matters of significance who shall report this information to the Director of Commerce & Technology. The Audit & Risk Manager shall have the right to meet formally with the Director of Commerce & Technology if he feels it is appropriate to do so.

Qualifications & Training Requirements

Internal audit staff should be appropriately qualified. They should also have suitable audit experience. Appropriate professional qualifications for internal auditors are a CCAB professional accountancy qualification, the Practitioner or Member qualification of the Institute of Internal Auditors, or full membership of the Association of Accounting Technicians. The Audit & Risk Manager shall identify and arrange for appropriate professional training to be undertaken by internal audit staff.

The Council is committed to continuing professional and personal development. Training needs for internal audit staff will be identified and reviewed as part of the Council's appraisal process. Personal development plans will be prepared for all audit staff. Training needs will be identified via staff completing a training matrix that identifies the competencies required across both technical and professional and interpersonal/organisational areas e.g. communication, management, negotiation etc.

The Audit & Risk Manager will be responsible for prioritising the training needs of all the audit staff within the section, and ensuring that resources available for training are spent in the most appropriate way.

Reviewing the Effectiveness of the Service

In order to comply with the Accounts & Audit Regulations[5], the CIPFA Code of Audit Practice and associated best practice the Director of Commerce & Technology shall ensure that an annual review of the Internal Audit service is undertaken.

The results of that review shall be considered by the Director of Commerce & Technology, who shall report the findings of the review to the Corporate Governance Panel and make appropriate recommendations for any necessary action. If this includes a service improvement plan the Panel will receive six monthly updates until all actions identified have been completed.

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[5] Accounts & Audit (Amendment)(England) Regulations 2006, Regulation 6 "The relevant body shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit".

Quality Assurance

The Audit & Risk Manager shall be responsible for introducing effective quality assurance standards and ensuring that Internal Audit work undertaken meets those standards.

A comprehensive Audit Manual shall be maintained that contains full and complete details of the working practices and procedures that have to be followed by all Internal Audit staff to ensure compliance with the CIPFA Code of Audit Practice. All audit work undertaken shall be reviewed at the following key stages by the Audit & Risk Manager:
- Preparation of the audit planning sheet
- Completion of system notes and identification of risks and controls
- Testing and the identification of the status of current risks and associated weaknesses
- Preparation of draft and final audit reports

Audit work will not continue until the Audit & Risk Manager has agreed that the work is appropriate and has met the standards defined in the Audit Manual.

Upon completion of an audit review, the Audit & Risk Manager and appropriate auditor will meet to discuss the audit and identify any issues of note regarding the conduct or delivery of the audit. Issues identified will be considered by the Audit & Risk Manager and actioned if appropriate.

The Audit & Risk Manager shall work proactively with the External Auditor to ensure that the audit resources available are used in the most effective and efficient manner (e.g. the co-ordination of audit plans, sharing of audit reports, joint working). Internal audit files will be maintained to such a standard that the External Auditor is able to place full reliance on their contents. It is expected that the annual audit letter will contain a statement that expresses the External Auditor's view as to how well the section is meeting professional standards.

The Audit & Risk Manager shall seek to ensure continuous improvement of the service by undertaking both qualitative and process benchmarking via the Cambridgeshire internal audit group and the national CIPFA benchmarking club, as resources allow.

David Harwood
Internal Audit & Risk Manager
February 2007

Control Environment

The control environment comprises the Council's policies, procedures and operations in place to:

- Establish, and monitor the achievement of, the Council's objectives
- Identify, assess and manage the risks to achieving the Council's objectives
- Facilitate policy and decision making
- Ensure the economical, effective and efficient use of resources
- Ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations
- Safeguard the Council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption
- Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes. It encompasses elements of corporate governance and risk management.

Risk Based Systematic Approach

An audit that:

- Identifies and records objectives, risk and controls
- Establishes the extent to which the objectives of the system are consistent with higher-level corporate objectives
- Evaluates the controls in principal to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose
- Identifies any instances of over and under control
- Determines an appropriate strategy to test the effectiveness of controls, i.e. through compliance and/or substantive testing
- Arrives at conclusions and produces a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment