

Internal Audit Strategy

Contact Officer: Helen Taylor
Telephone: 01895 556132

REASON FOR ITEM

The code of Practice for Internal Audit in Local Government requires the Head of Internal Audit to produce an Audit Strategy and Annual Plan and to ensure that the Audit Committee receives, understands and approves it.

This report sets out the strategy for delivery and development of the Internal Audit Service 2012-13 and the associated Annual Internal Audit Operational Plan. It details how the service will be delivered, the assurance that it will provide and how the Head of Audit will contribute to corporate governance arrangements, risk management processes and key internal control systems.

The Internal Audit Strategy underpins the assurance the Head of Audit provides for the Annual Governance Statement.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee should review and approve the audit strategy.

INFORMATION

1. INTERNAL AUDIT STRATEGY 2012-13

1.1. The Audit Strategy is a high level document, which deals with how the service will be delivered and developed. The Audit Plan provides details of how this strategy translates into a detailed work plan.

2. OBJECTIVES AND OUTCOMES

2.1. The objective of Internal Audit is to provide an independent and objective opinion on the organisation's control environment by evaluating its effectiveness in achieving the organisation's objectives.

2.2. Auditing standards recognise that its remit extends to the whole control environment of the organisation, including the systems of governance, risk management and internal control. A fuller expansion of this definition and the roles and responsibilities of Hillingdon Internal Audit is contained in the Terms of Reference for the service, which is available on the Council's website.

2.3. Audits will be carried out using a risk-based methodology, which looks at the objectives of an identified area as set out in service, group and team plans and assesses how far the controls in place will assist in addressing the risks to the objectives.

2.4. The outcome will be an assurance opinion at year-end that is based on an assessment of key risks to the Council.

3. EVIDENCE FOR THE OPINION

3.1. Internal Audit use a risk based approach to audit planning, which considers the total possible auditable areas in the Council (known as the Audit Universe) and weights them according to a set of risk factors. These include the obvious considerations such as value, volume and ease of removal of assets that would be considered in any financial context but also a range of non financial factors such as risks to service users and to the reputation of the Council. Risk assessments are updated at the end of every audit.

3.2. As the services the Council delivers or the methods of delivery are changed, the Audit Universe is continually revised and re-risked to ensure it keeps pace with emerging challenges. Risk is therefore reconsidered at the beginning of each year and a new Annual Operational Plan is based on a revised universe and risk assessment.

3.3. The model allows higher risk audits to be carried out annually, if necessary, and can accommodate varying frequencies for other audits such as triennial audit of schools, and a programme of reviews for establishment audits. At the same time, the methodology still ensures that all audits in the universe are carried out within a defined period (still five years) because the greater time since the last audit, the riskier the area becomes and it naturally falls into a higher risk category. At the end of each audit the risk assessment for the area will be revised resulting in an automatic recalculation of priorities.

3.4. The audit strategy is therefore a rolling plan, which determines the audits for the forthcoming year in an Annual Operational Plan. An element of contingency is budgeted in the plan so that in-year urgent issues can be dealt with as they arise.

3.5. This methodology results in a plan that supports Directors in delivering the strategic priorities and provides an overall view on the internal control environment, which is a key part of good corporate governance.

4. IDENTIFYING AND ADDRESSING SIGNIFICANT LOCAL AND NATIONAL ISSUES

4.1. Internal Audit meets regularly with Directors and Managers within the Council to discuss emerging issues and changing priorities both locally and nationally. Any relevant issues are incorporated into the audit universe and risked in the normal way.

4.2. Risk registers are regularly checked and risks and current mitigation are taken into account in the annual planning round.

4.3. The team also scan professional journals, news media, web-based professional discussion groups and other on-line media to keep up to date with the wider audit and local government environment.

4.4. Investigation where poor or weak controls are identified as contributing factors have immediate actions plans put in place but are also placed in a high risk category and scheduled for early audits.

5. HOW THE SERVICE WILL BE PROVIDED

5.1. The in-house team will carry out most audits, the exception being the audit of some IT systems, particularly where a high level of technical skill is required. A contract for 50 days of audit is in place with RSM Tenon. Less technical aspects of IT audit are incorporated into the general audit work when systems are under review.

5.2. We have a dedicated schools' auditor, which allows delivery of a service that not only provides audit to schools but also adds value by providing advice, guidance and a regular newsletter. We continue to work closely with Schools Finance, HR and Governors' Services to provide school support that reflects a more coherent approach.

5.3. During the year the majority of secondary schools have achieved Academy status and are no longer the responsibility of the local authority. This has reduced the time required on dedicated schools audit and consultation has taken place to address the changing requirement.

5.4. Anti-fraud awareness training and proactive detection will continue to be delivered by the Audit team as will preliminary investigation of suspected or alleged fraud and corruption. The Corporate Fraud Team has been active in dealing with wider fraud issues that affect the council such as Tenancy and Blue Badge fraud.

5.5. Data analysis software is used to match large volumes of data to identify suspicious transactions.

5.6. The team has experienced some staff turnover in-year with two trainees leaving to join the private sector. However, a successful recruitment campaign has filled both posts with good graduates. There will be approximately 11 FTE in 2012-13, which takes account of the reduced Schools' Auditor days and a reduction in the dedicated Head of Audit days as a consequence of her responsibilities for Corporate Fraud and Planning Enforcement.

6. RESOURCES AND SKILLS REQUIRED TO DELIVER THE STRATEGY

6.1. The in-house team has a wide pool of skills and experience and we encourage staff to further their professional training. The Head of Audit and one Audit Manager are professionally qualified CIPFA accountants; one Audit Manager is MIIA (Institute of Internal Auditors) qualified. This provides a wide range of technical skills at manager level.

Four trainees are, or will be, pursuing professional training supported by the Council. One graduate will come to the end of his Institute of Internal Auditors (IIA) training in the coming year. Three trainees will commence studying for the IIA in October.

The qualifications status for the current team is as follows:

Qualified Accountants	5
Member of the Institute of Internal Auditors	1
Studying for IIA	1
About to commence IIA studies	3

Unqualified but very experienced

2

6.2. Continuing Professional Development for all staff is addressed through the PADA process.

BACKGROUND PAPERS

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