

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 2010-11 and the associated Internal Audit 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 provides assurance for the Annual Governance Statement by stating how it will contribute to the review of corporate governance and risk management arrangements and how assurance will be provided on the operation of the key internal control systems.

Internal control forms part of the judgement on use of resource in the CAA Key Lines of Enquiry and needs to meet increasingly challenging tests. Failure to set a strategy or provide appropriate assurance on controls could adversely affect the council's CAA score.

OPTIONS AVAILABLE TO THE COMMITTEE

The audit committee should review and approve the audit strategy.

INFORMATION

1. INTERNAL AUDIT STRATEGY 2010-11

1.1. The Audit Strategy is a high level document, which deals with how the service will be delivered and developed. The 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 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, ease of removal of assets that would be considered in any financial context but also the non financial factors such as threats 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 reconsideration 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. 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 and an automatic recalculation of priorities.

3.4. The strategic plan 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 and any relevant issue are incorporated into the audit universe and risked in the normal way. 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.

5. HOW THE SERVICE WILL BE PROVIDED

5.1. The in-house team will carry out most audits, the exception being the audit of IT systems. Some IT audit requires very technical skills which are very much in demand in the wider audit sector. It has not been possible in the past to recruit and retain this expertise in-house. However following a review of our needs I have taken the opportunity of contract renewal to reduce the number of IT days bought in to 50, from the previous 125. The in-house team will now carry out some routine checks, such as password controls, as part of the general audit. Bought-in skills will be confined to very technical issues and the Head of IT has been consulted and supports this approach.

5.2. At the time of writing, the contract had been tendered in line with the council's procedures and the appointment of a successful contractor was expected to be achievable before the start of the new financial year.

5.3. At the beginning of 2009-10 the audit of schools was brought in-house. This has allowed delivery of a service which not only provides audit to schools but also adds value by providing advice, guidance and a regular newsletter. We have worked closely with Schools finance, HR and Governors' Services to provide support to schools that reflects a more coherent approach. Certification of FMSiS (Financial Management Standard in Schools) is provided to schools at marginal cost to them and provides the added advantage of reducing the documentation they need to duplicate for audit and FMSiS purposes. This integrated approach to schools audit and advice will continue and be developed further in 2010-11.

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. We will continue to work closely with the Housing Benefit Fraud Team and Legal Services to take forward prosecutions.

5.5. The team has been fully staffed since January 2010 and the complement is 11.6 FTE, including the Head of Audit.

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, providing a wide range of technical skills at manager level.

During the year the opportunity was taken to reshape the audit team by replacing vacant Senior Auditor posts with high quality graduates, training costs being met from salary savings. These trainees will study for the IIA qualification and will start college in October 2010. I expect one AAT trainee to qualify and join the IIA course too. While the training commitment for the team will be high, especially in the latter half of the financial year, the reshaped team is in keeping with the Council's strategy of nurturing its own talent and succession planning.

The skills in the rest of the team are as follows:

Qualified Accountants	3
Association of Accounting Technicians Studying	2
Graduate Trainee Auditors	2
Qualified by experience	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