

Internal Audit Strategy

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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 2011-12 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 2011/12

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 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 and any relevant issues 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 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 support to schools that reflects a more coherent approach.

5.3. The coalition government abolished the need for schools to be certified as meeting the Financial Management in Schools Standard (FMSiS) so we will not charge schools for this certification in 2011-12. However, our audit incorporates the testing of schools systems to the standards established under FMSiS, which was in any case a good practice guide for schools.

5.4. The hours of the dedicated schools' auditor were reduced to address the changed need as a result of the demise of FMSiS.

5.5. 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. Since October 2011, the Housing Benefit Fraud team has come under the remit of the Head of Audit and Enforcement and we continue to work to develop innovative ways of preventing and detecting fraud with the now renamed Corporate Fraud Team.

5.6. During 2010, a business case was made to purchase some data analysis software, IDEA, which is used to data match systems in house. We will continue to use this in 2011-12 to identify a range of possible irregularities.

5.7. The team has been fully staffed throughout the year and the complement will be 11 FTE in 2011-12, 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 pursuing professional training, supported by the Council. Three, including two graduates, are studying for the Institute of Internal Auditors (IIA) and one for the Association of Accounting Technicians, (AAT).

The qualifications status for the whole team is as follows:

Qualified Accountants	5
Member of the Institute of Internal Auditors	1
Studying for IIA	3
Studying for Association of Accounting Technicians	1
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