



INTERNAL AUDIT STRATEGY (2014/15 TO 2017/18)

YEAR 4

1.0 Introduction

1.1 Role and Purpose of Internal Audit

The statutory basis for the internal audit service is provided in the Accounts and Audit (England) Regulations 2015 state that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

The Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority’s affairs. To perform that duty the Section 151 Officer relies on amongst other things, the work of internal audit in reviewing systems of internal control, financial management and other assurance processes.

The internal audit team will evaluate the adequacy and effectiveness of controls in responding to risks within the organisation’s governance, operations and information systems regarding the:

- Achievement of the organisation’s objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

The standards for “proper practice” in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013. The Chief Internal Auditor undertakes an annual self assessment against these standards.

In addition, the standard and quality of our service is scrutinised in four ways:

- Scrutiny by the Audit Committee
- Review by External Audit
- Customer feedback
- External assessments five yearly

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1.2 The purpose of this strategy is to outline:

- i) A Vision Statement for the Horsham D.C Internal Audit Team
- ii) How the Internal Audit Service supports the Council's Strategic Objectives
- iii) The Council's Strategic Objectives
- iv) General Internal Audit Objectives
- v) Specific Internal Audit Objectives for the term of this strategy
- vi) The audit planning process
- vii) Reporting protocols
- viii) Resource requirements, training and skills
- ix) Performance management and quality assurance
- x) Audit Objectives for 2017/18

1.3 Our aim is to help the Council meet the high standards of service delivery, conduct and governance its stakeholders expect by examining, evaluating and reporting on the internal control environment.

2.0 Vision Statement

2.1 The ultimate aim is to become a 'Centre of Excellence' for the provision of risk, assurance and consultancy services. The Internal Audit team is a professional unit which aims to support the future success of the Council. The team will provide independent challenge; respond positively to a changing environment; offer sound advice to senior managers and Members on strategic, governance, risk and control issues; and 'add value' at every opportunity. Internal Audit work spans across all areas of the Council, and the Internal Audit team is well placed to take an overview of the organisation and is often the first to be consulted when fraud is suspected, control weaknesses are identified or value for money issues arise.

3.0 Council's Strategic Objectives

3.1 Through the work it undertakes, Internal Audit will support the Council's Corporate Plan Priorities for 2016/19:

- **Communities ~ Support our Communities**
- **Efficiency ~ Great Value Services**
- **Economy ~ Improve and Support the Local Economy**
- **Environment ~ Manage our Natural and Built Environment**

The Internal Audit Service at Horsham assists in the achievement of these objectives by providing a high quality audit service that gives management and Members reasonable assurance that the Council's control environment is effective, and acts as an agent for change by making recommendations for continual improvement". We aim to be flexible and pragmatic and to deliver our service in collaboration with management to suit organisational needs. Through a risk based approach we will make a positive contribution to corporate governance arrangements and assist management in developing a framework for achieving objectives within acceptable levels of risk. Within the team we will provide a work environment that is both supportive and challenging to facilitate the development and retention of staff.

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4.0 General Internal Audit Objectives

4.1 The general objectives of the Horsham District Council Internal Audit Service are as follows:

- Delivery of the annual internal audit plan.
- Assist senior management in strengthening the Council's governance framework, including risk management.
- Provide sufficient flexibility within the annual audit plan to enable the audit function to provide an immediate response to current issues and the changing needs and priorities of the organisation.
- Help to ensure agreed actions arising from audit assignments are implemented.
- Provide an annual assurance statement by forming and evidencing an independent opinion on the organisation's risk management, internal control environment and governance arrangements based upon the results of audit work completed during the year.
- Whilst the Internal Audit section's primary role is to review, appraise and report on the adequacy of controls, it will also undertake other non-assurance work to "add value" to the organisation (including risk management, project assurance, advisory services and fraud-related work).
- Commitment to comply with the mandatory Public Sector Internal Auditing Standards which came into effect on 1st April 2013.
- Commitment to training and professional development.
- Continue to achieve a high standard in all key performance indicators for the service.
- Maximise the use of technology, including the use of computer audit software tools such as IDEA (Interactive Data Extraction & Analysis).
- Work in partnership with the Council's external auditors to ensure that audit work is coordinated and to avoid duplication of effort.
- Continue to explore partnership working opportunities. Income generation opportunities are also being sought to support the Council's Commissioning objectives.

5.0 Specific Internal Audit Objectives for 2015 to 2018

5.1 Specific objectives for 2015/16 to 2017/18 are as follows:

- i) Reduce the number of internal audit paper files by 90%.
- ii) Develop audit control matrices for at least 80% of the audits included in the Strategic Internal Audit plan.
- iii) Switch to a three year audit plan or expand the service.

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- iv) Identify and attend appropriate contract / commissioning training seminars / courses.
- v) Commit to achieving full compliance with the Public Sector Internal Audit Standards.
- vi) Provision of training to improve auditor's aptitude in the use of computer audit assisted techniques.

[Update on progress as at 2/2/17:](#)

- 1) Achieved
- 2) Ongoing
- 3) The Council's Cabinet has decided to support the proposed reduction of audit time to 400 chargeable days. Future audit plans will be limited to medium and high risk areas only, and therefore there will no longer be a requirement to cover all areas of the Council every four years.
- 4) Ongoing.
- 5) Ongoing. An external review was planned for 2016/17, but this has been put on hold due to the decision to join Orbis (a partnership which is being formed between Surrey County Council, East Sussex County Council and Brighton & Hove City Council).
- 6) On the job training.

6.0 Audit Planning Process

6.1 Internal Audit work will be adequately planned, controlled and recorded to identify key risk areas, establish audit priorities and ensure the effective use of audit resources.

- **Strategic Audit Plan**

The Strategic Audit Plan is reviewed annually. Internal Audit has, in the past, worked to a four year strategic plan and a risk assessment methodology is used to help establish priorities and resource allocations. However, as mentioned in paragraph 5.1 above, this is about to change. The Chief Internal Auditor will continue to hold a list of all the auditable areas, but decisions on which areas to include in the annual plan will be determined by the perceived level of risk.

- **Annual Audit Plan**

The annual audit plan is derived from the four year strategic plan using a risk based approach. The following key financial systems will be audited annually as they are material to the production of the Authority's accounts

- Asset Management
- Business Rates
- Cash Receipting & Bank Reconciliation
- Council Tax
- Creditors
- Debtors
- Housing Benefits
- Payroll
- Treasury Management

The Council's External Auditors may place reliance upon the work of Internal Audit to avoid duplication of effort.

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In addition, the Internal Audit Service will undertake review work in a number of other high risk areas:

- Business Continuity
- Computer Audit
- Contracts
- IT/Data Governance
- Ethics, Values & Behaviours
- Purchase Cards

There are currently 61 additional service and operational areas. The starting point for developing the annual audit plan is to review the Corporate and Departmental Risk Registers, identifying high level risks. The Chief Internal Auditor consults with the Senior Leadership Team and service managers as part of the annual audit planning process which includes a discussion about risk management and emerging risks which could impact on departmental objectives and core processes. Emerging risks could include significant local or national issues which may result in a one-off review, or alternatively may need to be incorporated into the strategic audit plan. The annual audit plan is approved by the Audit Committee.

A contingency allocation is routinely built into the internal audit plan to enable the audit team to respond quickly to changes in priorities. Any displacement of a previously planned review by unplanned work will be clearly justified. In the event that a planned audit is replaced by consultancy work or value for money work (anticipated to be in excess of five days), prior authorisation will be obtained from the Chair of the Audit Committee.

7.0 Reporting

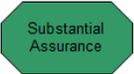
7.1 Assignment Reporting

All formal internal audit assignments will result in a formal report. The primary purpose of the audit report is to provide an independent and objective opinion to management on the framework of internal control, risk management and governance in operation and to stimulate improvement.

The level of opinion provided in the formal audit report will be based on the following definitions:

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SUMMARY OF INTERNAL AUDIT ASSURANCE OPINIONS

	<p><u>System of Control:</u> There is a sound system of control in place which minimises risk to the Council; and/or</p> <p><u>Compliance with Controls:</u> Audit testing identified that expected controls are being consistently applied. Only a few errors or weaknesses were identified, but the level of risk is considered to be minimal.</p>
	<p><u>System of Control:</u> Whilst there is an adequate system of control and all key controls¹ are in place, there are some weaknesses which may place the Council at risk in a few areas; and/or</p> <p><u>Compliance with Controls:</u> Audit testing identified a lack of compliance with controls in a few areas.</p>
	<p><u>System of Control:</u> There are several weaknesses in the system of control and / or the absence of one or more key controls, which is placing the Council at risk in a number of areas; and/or</p> <p><u>Compliance with Controls:</u> Audit testing identified a lack of compliance with several controls and/or one or more key controls and/or potential risk of abuse.</p>
	<p><u>System of Control:</u> The system of control is generally weak leaving the system open to significant error or abuse; and/or</p> <p><u>Compliance with Controls:</u> Significant non-compliance with basic control processes leaves the processes / systems open to significant error or abuse.</p>

Where possible, the formal audit report will be issued electronically within 15 days of the final meeting at which action and timescales for implementation are agreed. The formal audit report will be addressed to the responsible Service Manager and their line Director. All reports will be copied to the Section 151 Officer and the Chief Executive.

7.2 Quarterly Reports

The Chief Internal Auditor will submit quarterly reports to the Senior Leadership Team and the Audit Committee to summarise the main findings from audit assignments and remedial action agreed. An audit opinion for each audit assignment will also be given.

7.3 Follow ups

Action plans detailing agreed actions will form an integral part of each audit report, together with timescales for completion and responsible officers. Service Managers (or Directors) are accountable for any actions agreed within the action plans and are responsible for ensuring actions are properly implemented within the agreed timescales.

The Chief Internal Auditor will request progress reports from management, including evidence of actions taken where appropriate, within a timeframe that reflects delivery dates for agreed actions. The Chief Internal Auditor will consider management responses and, where appropriate, evidence submitted, and exercise judgment as to whether any further action (e.g. a follow up review) is required.

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Agreed actions relating to high and medium risks that have not been implemented within agreed timescales are reported quarterly to the Audit Committee.

7.4 Annual Audit Opinion

The Chief Internal Auditor will prepare an annual report for the Senior Leadership Team and the Audit Committee to include:

- An opinion on the overall adequacy and effectiveness of the framework of governance, risk management and internal control.
- Any issues which are considered to be particularly relevant to the Annual Governance Statement.
- Comments on compliance with the Public Sector Internal Audit Standards.
- Feedback on performance against targets.

8.0 Resource Requirements, Training & Skills

8.1 The annual audit plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Audit Committee will be advised where, for whatever reason, Internal Audit is unable to complete the audit plan.

8.2 The effectiveness of the Internal Audit section depends on the quality, training and experience of staff. In order to deliver the Audit Strategy and Annual Audit Plan, appropriate resources and skills will be required.

8.3 At Horsham, Internal Audit work is undertaken by an in-house team of three full-time employees and one part-time employee providing the equivalent of 3.6 full time staff. Internal audit staff will be appropriately qualified and have suitable audit experience. Following the recent decision by Cabinet to reduce the number of audit chargeable days to 400 days, it is likely that team resources will be reduced to 2.1 from 1st April 2018.

8.4 Partnership working was undertaken during 2015/16 and 2016/17 in order to reduce duplication of Internal Audit work on CenSus Council Tax, and further partnership working will be undertaken in 2017/18.

The Internal Audit service also provided resources to Crawley B.C. during 2015/16 to help them to deliver their audit plan. A new Service Level Agreement has been drafted for 2017/18 in order to generate additional income for the Council.

8.5 Training needs of individual auditors are identified using a competency matrix which is utilised to identify technical, professional, interpersonal and organisational competencies. This forms the basis of a skills register which records levels of competency achieved by each auditor together with a summary of training needs. As part of the annual appraisal process, personal development plans will be prepared for all audit staff following a skills gap analysis. Training needs are evaluated on an ongoing basis in response to the changing demands placed upon the Internal Audit section resulting from emerging local and national issues.

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9.0 Performance Management & Quality Assurance

9.1 Internal Audit will deliver a quality service that demonstrably adds to the improvement of the organisation's risk management, control and governance arrangements. Quality will be assured by adherence to audit processes that are subject to continuous review. The Chief Internal Auditor will undertake a review of working papers prior to the issue of each audit report.

9.2 A suite of performance indicators has been designed, and performance against these indicators will be reported to the Senior Leadership Team and Members as part of the Annual Audit Report. The targets set out below will be reviewed at the end of each financial year and revised as appropriate.

Code	Indicator	Target
A01	Percentage of agreed action items implemented.	100%
A02	Percentage of audits on the annual audit plan completed within the year.	85%
A03	Management Satisfaction (very satisfied or satisfied) with Audit Service.	95%
A08	External Audit reliance on Internal Audit work achieved.	Yes
A09	Percentage of final reports issued within 15 days of completion of the final meeting to agree action and timescales.	85%
A10	Percentage of key financial system audits on annual audit plan completed within the year.	100%
A11	Percentage of points arising documents reviewed and issued within 15 days of being sent to the Chief Internal Auditor.	80%

9.3 The Chief Internal Auditor is committed to achieving full compliance with the mandatory Public Sector Internal Audit Standards 2013. This includes ensuring that auditors are regularly reminded of their ethical responsibilities.

10.0 Audit Objectives for 2017/18

- i) Achievement of the audit plan for 2017/18 (and other performance indicators ~ see 9.2 above).
- ii) Continue to create control matrices when undertaking audit assignments to improve future efficiency.

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- iii) Undertake audit work for Crawley Borough Council during 2017/18.
- iv) Continue to provide assistance to the Director of Corporate Resources in helping to improve the risk management process and application.
- v) Encourage service managers to incorporate high and medium risks identified during audit assignments into their departmental risk registers.
- vi) Continued training programme for team members, including computer assisted audit techniques.
- vii) Work towards vision of becoming a 'Centre of Excellence' for the provision of audit and risk services.
- viii) Prepare for integration with the Orbis Partnership from 1st April 2018.

Paul Miller
Chief Internal Auditor
1st March 2017