

**THREE RIVERS DISTRICT COUNCIL
&
WATFORD BOROUGH COUNCIL**

INTERNAL AUDIT SERVICE

AUDIT STRATEGY 2012/2013

Standard 7 of the CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006) requires the Audit Manager to produce an audit strategy as a high level statement of how the service will be delivered. The Standard also states that the strategy should be approved, but not directed by, the Audit Committee.

This Audit Strategy document supplements the approved Finance Service Plan with a more detailed demonstration of the link between the key corporate priorities of the two authorities, Internal Audit Service priorities and the work of individual auditors. The Strategy also records how the Service's Audit Plan priorities have been determined for 2012/13 and how the service is to be delivered.

1 Service Centre

Internal Audit Service – in-house provision with additional external resource for ICT audit.

2 Lead Officer

Mark Allen – Audit Manager

3 Service Statement

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Councils on the control environment (comprising the systems of governance, risk management and internal control) and evaluates its effectiveness in achieving the Councils' objectives. Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

4 The Nature of the Service

- 4.1 The Service's overall objective is to provide an adequate and effective system of internal audit of the Councils' accounting records and systems of internal control in accordance with the proper practices in relation to internal control.
- 4.2 The Accounts and Audit (England) Regulations 2011 require that the Councils must undertake an adequate and effective internal audit of their accounting records and of their systems of internal control in accordance with the proper practices in relation to internal control. Guidance to the Regulations 2003, which has yet to be superseded, states that this provision should comply with CIPFA's *Code of Practice for Internal Audit in Local Government in the UK* (the Code). This Code was last revised in 2006. It requires the Audit Manager to provide a written report to those charged with governance timed to support the Annual Governance Statement. It sets out various matters to be commented on in the report including the requirement to give "an opinion on the overall adequacy and effectiveness of the Council's control environment". The work the Service undertakes throughout the year is planned to enable the Audit Manager to provide such an opinion.
- 4.3 Internal Audit's performance against the Code's standards will be monitored on an annual self- assessment basis with the results being reported to the two Audit Committees.

- 4.4 Internal control systems are all those processes which are set up by management to safeguard assets, ensure reliability of records, promote operational efficiency and monitor adherence to policies, regulations and directives. Internal Audit is not confined to the review of financial processes but has the freedom to review any council activity.
- 4.5 Internal Audit is an aid to, but not a substitute for, good management.
- 4.6 The Code also states that the audit work plan must be fixed for a period of no longer than one year. This is a reflection of the difficulty in predicting changes over the longer term when the range of services provided and the manner of service provision is likely to change substantially. The annual work plan enables Internal Audit to concentrate on issues of immediate significance to the Councils as well as covering the external auditor's requirements under the "Managed Audit" approach. A longer term database of potential areas for audit in both authorities is maintained by the Audit Manager.
- 4.7 When setting up the audit plan reference is made to the Councils' risk management processes (strategic and service based) to identify the key risks facing each council. The Audit Manager maintains a fraud risk register which is used as a supporting element of the planning process. Discussions are also held with heads of services to identify any areas of concern they may have which could feed into the work programme.
- 4.8 Reference has been made to committee minutes, corporate plans, individual service plans and previous work undertaken by the Internal and External Auditors, as sources of information for determining activities to be covered by Internal Audit. Relevant national, professional and local publications are also used as a source of planning material to ensure possible external developments are also accounted for.
- 4.9 Systems based audit work will be carried out in a manner which meets the requirements of the external auditors. Most resource will be directed at the key systems as defined under the "Managed Audit" approach.
- 4.10 As concern grows nationally about the prevalence of fraud in both the public and private sectors, a number of audits have been included in the plan which, it is intended, will provide assurance that the Councils' arrangements for the prevention and detection of fraud remain effective. These include specific audits on fraud governance and fraud risk management as well as time allocated to work on cyber crime awareness and prevention measures and the Councils wider corporate governance and risk management arrangements that contribute to the prevention of fraud.
- 4.11 A contingency allowance has been made for fraud investigations although this aspect of fraud work is increasingly being undertaken by the Fraud Team. As this happens, Internal Audit will work closely with the Fraud Team to identify system weaknesses which may have allowed the fraud to be committed and will recommend measures to address them. It is management's responsibility to ensure that adequate control procedures are in place to deter and detect fraudulent activity, not Internal Audit's or the Fraud Team's. Audit resources will be directed towards detecting fraud in those activities which are widely recognised as being susceptible to fraud (e.g. housing benefits), recognising that the current uncertain economic circumstances could lead to the increased risk of fraud.
- 4.12 Consultancy work undertaken in the past has largely consisted of providing advice and has generally been of a reactive rather than proactive nature. In a shift from the previous approach, Internal Audit will now positively seek consultancy type work. As such work is undertaken the terms of reference will make it clear that it is not being carried out in the capacity of Internal Audit's assurance provision role and the Audit Committee will be advised accordingly. The audit plan for 2012/13 reflects an allocation of time for consultancy work.

- 4.13 The allocation of resources will be set out in the annual audit plan. This Audit Strategy and the audit work plan will be presented to both Audit Committees for approval.
- 4.14 All Internal Audit recommendations will be followed up to ensure implementation. This will be through seeking written confirmation from those individuals with named responsibility for implementing specific recommendations on a quarterly basis and by review during the next audit of that activity. The follow up procedure for Watford was amended in 2011/12 to enable the provision of additional data to the Audit Committee. In the case of Three Rivers, all outstanding recommendations will then be reported to the Audit Committee.
- 4.15 At the end of the year the work undertaken will be sufficient to enable the Audit Manager to provide an opinion on the effectiveness of the control environment during 2012/2013.

5 Key Service Priorities for 2012/2013

- 5.1 For Watford, the budget reductions and subsequent introduction of new ways of working prompted by the Service Prioritisation programme and ongoing reassessment of service provision through the Road Map programme requires a significant change in the way the reorganised services will operate.
- 5.2 Budget pressures within services at Three Rivers and the council's continued search for new ways to improve customer service, may also have an impact on the way services operate. Audit time will be devoted to assessing the councils' processes for effectively managing these changes, including through their project and change management, risk management, corporate governance and procurement arrangements.
- 5.3 Further, the audits of affected functions next year, and in future years, will incorporate work to ensure that changes do not mean a weakening of controls. The work will also be aimed at providing assurance to the external auditors that the key, managed audit, systems continue to operate effectively for both councils.
- 5.4 The identification of opportunities for enhancing the value for money achieved by audited services will continue to be a requirement of every audit.
- 5.5 Internal Audit will continue to raise awareness of "best practice" in operation in both councils and seek to introduce these from one council to the other, as identified during the course of audit work.
- 5.6 It is widely accepted that the changed global economic circumstances are likely to result nationally in an increase in attempted fraud. Fraud risk assessments have been reviewed and the higher risk functions (especially Housing Benefit) remain a focus for Internal Audit attention. The councils' wider arrangements for the identification of fraud risks and the prevention and detection of fraud will receive specific attention in 2012/13.
- 5.7 Internal Audit will remain alert to the possibility of fraud in all the reviews it undertakes – recognising that robust internal controls and staff vigilance are key to minimising the risk of fraud.
- 5.8 As the majority of council services are now reliant on IT for their delivery, the increasing publicity highlighting the prevalence of cyber crime as a means of committing fraud and of preventing normal service delivery through Denial of Service (DoS and D(distributed)DoS) attacks has brought this to the fore as an area that Internal Audit must cover. Time allocation has been given within the audit plan for 2012/13 to work at both councils on raising awareness of, and determining the mitigating action against, the range of issues that fall under the heading of cyber crime.

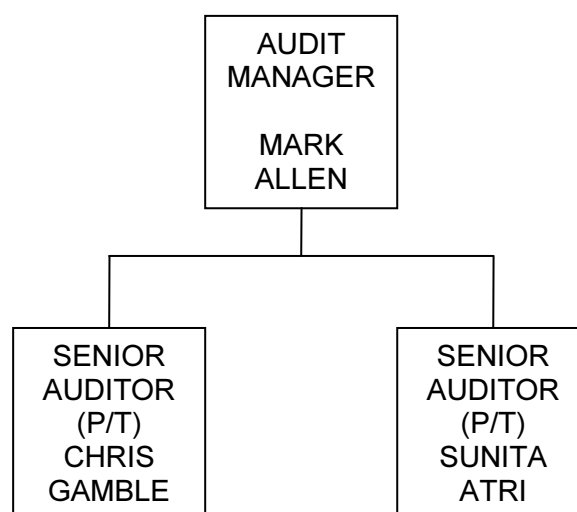
- 5.9 The Audit Manager will continue to ensure that Internal Audit operates in accordance with CIPFA's expected standards. Procedures will also be designed to meet the external auditor's requirements. The extent to which the external auditors continue to place reliance on the work of Internal Audit will act as measure of success in achieving this objective.

6 How has the service translated the key corporate priorities into service delivery?

- 6.1 In overall terms the Internal Audit Service seeks to support all corporate objectives/strategic themes by promoting the economic, effective and efficient use of limited resources through a continuous process of service reviews. In addition, the Service will review the effectiveness of actions taken to mitigate those key risks likely to prevent the achievement of corporate objectives or affect the ability to provide continuity of service.
- 6.2 Internal Audit will also examine the integrity, accuracy and security of data produced by the various systems as this forms the base on which decisions re future service provision and other initiatives are made.
- 6.3 Details of the work to be undertaken by Internal Audit are set out in the 2012/2013 work plan.

7 Resource Requirement

- 7.1 It is anticipated that with the given contingency allowance built into the Audit Plan, the existing in-house resource supplemented by the IT audit resource from Deloitte and Touche will be sufficient to meet both Councils' requirements for 2012/2013.
- 7.2 The staffing resource for the in-house team has reduced from 3.8 FTE in 2010/11 to 2.8 FTE in 2012/13. In addition to the Audit Manager there are two Senior Auditors. The Audit Manager and all Senior Auditors hold recognised Institute of Internal Auditors (IIA), qualifications. In addition, the Audit Manager has the Association of Accounting Technicians qualification (AAT). All staff have in excess of 5 years experience of internal audit work in local government.
- 7.3 Existing in house team.



8 Monitoring and Evaluation

- 8.1 The Audit Manager will continuously monitor progress against the Audit Plan and local performance indicators. Progress will be reported to the Audit Committees on a quarterly basis.
- 8.2 Performance Indicators 2012/2013:

| Indicator | Target |
|---|---------------|
| Actual "chargeable" days as % of planned | 85% |
| % Audit plan completed (an annual assessment based on the number of audit projects) | 92% |
| % Final audit reports issued on time | 100% |
| Client satisfaction score | 94% |

- 8.3 Staff performance will be reviewed during and at the completion of individual audits by the Audit Manager and through the Watford performance appraisal process.
- 8.4 The external auditors review the work of Internal Audit annually to ensure that they can continue to rely on our work.
- 8.5 The Audit Manager's comparison of performance against CIPFA's Code will contribute towards the overall assessment of the effectiveness of Internal Audit.

9 Risk Assessment

Internal Audit faces one significant risk, related to the long term absence of staff affecting the delivery of the Audit Plan.

Audit Manager
February 2012

| Risk Ref | Risk Title/ <i>Description</i> | Consequence | Likelihood 4=Catastrophe 1=H. Unlikely | Impact 4=Catastrophe 1=H. Unlikely | Risk Rating | Responsibility | Existing Control Procedures | Likelihood 4=Cat 1= H. U | Impact 4=Cat 1=H. U | Risk Rating |
|----------|--|--|--|--|-------------|----------------|--|--------------------------------|---------------------------|-------------|
| IA 1 | Loss of staff for an extended period. | Failure to achieve audit plan. Failure to complete work on key systems. Criticism from external auditors and loss of internal credibility. | 3 | 4 | 12 | Audit Manager | Use of contingency allowance. Forward planning. Reorganise work to ensure key systems are prioritised. | 2 | 3 | 6 |
| | Options for additional/replacement control procedures | | | | | | Cost/Resources | Likelihood 4=Cat 1=H. U | Impact 4=Cat 1=H. U | Risk Rating |
| | Buy in additional resource sufficient to achieve minimum cover required for the provision of an audit opinion re adequacy of the internal control environment. | | | | | | Depends on experience of auditor and length of time involved. | 2 | 2 | 2 |

Reviewed February 2012