

*Improving
North Wiltshire*

*North
Wiltshire
District
Council*

**NORTH WILTSHIRE DISTRICT COUNCIL
INTERNAL AUDIT STRATEGY
2007/2008**

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Introduction

North Wiltshire District Council, like all organisations providing services to the public, relies on systems that balance flexibility with appropriate internal control. This allows the Council to manage resources to meet strategic and service objectives, ensuring accountability and minimising the risk of fraud.

The Council has statutory obligations and is responsible for the proper stewardship of millions of pounds of public money. It must therefore ensure that the highest standards of corporate governance are maintained. Internal Audit help to provide assurance that Council assets and resources are correctly applied and used wisely.

Internal Audit is mandatory within Local Government. Under the 2003 Accounts and Audit Regulations, the Council is responsible for maintaining an adequate and effective internal audit function.

Internal audit is defined as being “*an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation’s objectives. It 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.*” (Source CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006)

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.

The Council’s External Auditors, the Audit Commission, examine the work of Internal Audit on an annual basis, and seek to place reliance on that work when they come to audit the Council’s financial statement of accounts. If they can place reliance on Internal Audit work then it may reduce the amount of work they need to carry out themselves, saving the Council additional fees and reducing the burden on officers at key times during the year.

The standards of auditing which the Council will receive, and associated performance indicators, are also outlined in this strategy.

The Planning Process

The level of internal audit resources required to examine all the Council's activities exceed those available each year. It is, therefore, essential that the work of Internal Audit be properly planned to ensure the maximum benefit is gained from the independent appraisal function which internal audit provides. Resources must be appropriately targeted by assessing the Council's total audit needs and preparing a plan that ensures systems are reviewed on a cyclical basis according to the impact they have on service delivery. How regularly systems and processes are reviewed varies depending on the associated risk, materiality and the level to which the organisation depends on them.

A three-year audit plan, covering the financial years 2007/2008 to 2009/2010, was approved by Members in April 2007.

This plan was drawn up to reflect areas identified as being of risk to the Council, and to provide External Audit with their required assurances on key financial systems. At the same time, the plan retains some flexibility to respond to changes in the priorities of officers and Members, as risks are increased, mitigated or new risks are identified.

All potential audit areas have been scored using risk matrices to decide the frequency of audits in the rolling audit plan.

- All core financial systems (including the Main Accounting Systems, Creditors, Debtors, Benefits, Council Tax and NNDR) are subject to annual audits of compliance against key controls. This work is undertaken to enable External Audit to reduce the amount of work they are required to undertake as part of their annual audit of the Council's financial statements.
- All systems and auditable areas which are identified as high risk in our risk analysis are reviewed each year (except where the risk is short term, for example exit arrangements from a current contract or new systems development). This may include the use of shorter interim audits in some years.
- Systems assessed as medium risk will be subject to a full review every other year.
- Systems assessed as low risk will be audited every three years.
- Systems where a control assurance opinion of limited (4) or none (5) (See Appendix A) has been awarded and which is not subject to an annual audit should be considered for a follow up review to assess the effective implementation by management of agreed audit recommendations.
- Where common areas of risk are identified across several Teams or Business Units then the use of corporate themed reviews will be considered to ensure an approach which is both consistent and makes effective use of resources.
- Where a system is assessed as having risks which require both systems audit and IT audit input then we will work with our IT audit contractor to ensure an approach which is both consistent and makes effective use of resources.

Training

The effectiveness of the Internal Audit section depends on the quality, training and experience of its staff. Training needs of individual staff members are identified through the performance appraisal process and delivered through the Council's Training Plan. As well as basic training in audit techniques and the acquisition of specialist audit skills, the Internal Audit Section is committed to coaching and mentoring its staff, and to providing opportunities for appropriate and necessary professional development.

Statement on Internal Control

The outcome of the audits within this year's plan will inform the Internal Audit Manager's overall opinion on the adequacy of the Council's system of internal control, which will then feed into the Council's Statement on Internal Control (SIC).

Internal Audit is one of a number of areas of assurance that contribute to the Council's Assurance Framework.

The Accounts and Audit Regulations 2003 for local government bodies in England require a SIC to be published as part of the statement of accounts. The SIC is required to include the following disclosures:

- acknowledgement of the authority's responsibility for ensuring a sound system of internal control is maintained.
- an explanation that the system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve the organisations policies, aims and objectives.
- reference to the ongoing risk management process designed to identify and prioritise the risks to the achievement of these policies aims and objectives.
- confirmation that the system of internal control was in place for the duration of the financial year.
- a description of the key elements of the internal control environment. The authority's responsibility for reviewing the effectiveness of the system of internal control and a description of the review process undertaken.
- confirmation that the authority has discussed the results of the review with the relevant committee.
- where appropriate, details of actions taken, or proposed, to deal with significant internal control issues.

The SIC must be seen as a Council wide document and not just the responsibility of the Head of Finance and Resources or Internal Audit Manager. Information is sought from the Monitoring Officer, Chief and Deputy Chief Executives, Heads of Service and Performance Management Officers to ensure that all issues affecting the organisation are identified and evaluated.

The SIC is agreed by the Corporate Management Board before being reviewed and approved by the Final Accounts and Audit Committee. The

Leader of the Council and the Chief Executive then sign off the SIC, before it is published with the Council's statement of accounts.

An additional annual review of the Effectiveness of Internal Audit is now also required. Internal Audit will work with External Audit, the Final Accounts and Audit Committee and the Corporate Management Board to ensure a thorough and fair review is carried out in a timely manner, to stand alongside the SIC.

CPA Use of Resources Assessment

Internal Control is one of the key areas within the CPA Use of Resources assessment. The framework, evidence and documentation that supports the SIC will be reviewed as part of that assessment by External Audit as it features in a number of the Key Lines of Enquiry (KLOE).

Internal Audit also contributes to a number of other KLOEs within both the assessment of internal control and the other categories. We also aim to ensure that, where appropriate, CPA requirements for service areas are incorporated into our audit scopes.

Audit Committee

“The purpose of an Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakness the control environment, and to oversee the financial reporting process.” (Source CIPFA Audit Committees: Practical Guidance For Local Authorities)

Audit Committees are not just the concern of auditors; they are about the governance, financial reporting and financial performance of the whole authority.

Effective corporate governance depends, in part, on a systematic strategy, framework and processes for managing risk. Governance is also about increasing public confidence in the objectivity and fairness of financial and other reporting. This in turn depends upon assurance that issues raised in preparing and auditing annual accounts and other reports have been dealt with. It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance.

The existence of an independent and effective audit committee helps to convey to staff and the public the importance Members and Officers attach to internal control.

NWDC has adopted best practice in implementing a Final Accounts and Audit Committee. This committee reports directly to the Council on matters it feels are relevant. Team Leaders and other relevant officers will attend meetings of the committee to update Members on the progress in implementing audit

recommendations, thereby helping to raise the profile of the work of internal audit. The committee also has responsibility for receiving and considering external audit reports, and for approving the annual financial statements.

Terms of reference have been drawn up for the committee which encompass the recommendations and guidance issued by CIPFA, the CPA Use of Resources and the Audit Commission. These terms of reference set out the following main responsibilities of the Final Accounts and Audit Committee.

The Terms of Reference for the Committee cover three main areas.

- **Audit Activity.** This covers considering the resources of the internal audit function, considering relevant internal and external audit reports as required, monitoring the implementation of audit recommendations and commissioning additional work as required.
- **Regulatory Framework.** Including the monitoring of the development and operation of risk management, overseeing anti-fraud, anti-corruption and whistle-blowing procedures and maintaining an overview of the Council's constitution, in respect of codes of conduct and behaviour, financial regulations and contract procedure rules.
- **Accounts.** The Committee has responsibility for reviewing the annual statement of accounts, considering whether appropriate accounting policies have been followed. They will also receive and consider the external auditor's report to those charged with governance.

In addition to the Final Accounts and Audit Committee, Internal Audit will also work with the Overview and Scrutiny Committee. This committee has responsibility for reviewing and considering decisions and actions of the Council, as well as monitoring and commenting on performance measurement and management and also conducting Best Value Reviews. Internal Audit, in an advisory role, will lend support and expertise where appropriate and ensure duplication with audit work already planned is avoided.

Fraud and Corruption

Unfortunately, fraud and corruption is an increasing issue nationally. Responsibility for prevention and detection rests with Management, but Internal Audit will identify high-risk areas, test for existence of fraud and recommend improved internal controls where necessary.

Internal Audit will, under the direction of the Council's S151 Officer, promote an anti-fraud culture and encourage staff to raise legitimate concerns with the confidence that they will be fully investigated. Information on frauds elsewhere will be disseminated and audit staff will consider whether procedures are operating which would prevent these particular activities occurring in this Council.

Internal audit will make use of computer audit techniques to compare and test data across different systems, as well as co-ordinating involvement in national data matching exercises, enabling the Council to identify and tackle any

problems with fraud, in particular benefit fraud. Internal Audit also operates the Council's Whistle-blowing procedures.

Staff appointment procedures should be continually reviewed as effective recruitment processes can prevent later problems of fraud and corruption, particularly in cases where vacant posts carry financial responsibilities.

About North Wiltshire District Council Internal Audit

1. Scope and Service Priorities

The scope of the internal audit function covers the entire internal control system of North Wiltshire District Council. Our audit reviews can therefore cover all financial and non-financial activities of the Council. These reviews advise and support the:

- a) Final accounts and Audit Committee in discharging its responsibilities for:
 - Advising on the adequacy and effectiveness of the Authority's internal control environment, including Internal Audit, in accordance with the requirements of the Accounts and Audit Regulations 2003;
 - Supporting the Section 151 Officer with their delegated responsibility for ensuring arrangements for the provision of an adequate and effective internal audit;
 - Monitoring the adequacy and effectiveness of the Internal Audit Service and Director's responsibility for ensuring an adequate control environment.
- b) Leader and Chief Executive in their annual certification of the Local Code of Corporate Governance and the Statement on Internal Control.
- c) Finance Team Leader in discharging their statutory responsibilities under Section 151 of the Local Government Act 1972.
- d) Officers responsible for maintaining and updating the organisation's risk registers.

The Council's own corporate risk register should drive a large part of the internal audit plan. We will also carry out audits of the Council's main financial systems under the managed audit arrangement with External Audit, and help to promote an anti-fraud and corruption culture by targeting areas of high risk of fraud, investigating suspected cases of fraud or irregularity and will also be involved as part of the whistle-blowing process.

2. Service Standards

North Wiltshire District Council Internal Audit apply standards of practice agreed by the Consultative Committee of Accounting Bodies (CCAB) and interpreted by the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (2006). It provides a quality, professional internal audit review service which helps the Council discharge its statutory duties regarding accountability, securing value for money and the application of high standards of Corporate Governance in the stewardship of public funds.

Adopting a constructive and supportive approach by working in partnership with officers throughout the Council, Internal Audit also promote good management practice and helps ensure that the Council's corporate policies and objectives are being realised.

3. Quality Standards

North Wiltshire District Council Internal Audit:

- Undertake audit assignments with competence, diligence, integrity and objectivity utilising skills and judgement developed through experience and training.
- Act impartially and objectively to provide a reliable opinion, pursuing all issues either reported or found.
- Encourage approaches from Members and Officers regarding any matters of concern, or simply to obtain advice and assistance.
- Fully involve Services in order to develop dynamic strategic and operational plans that are relevant to their needs and recognise service priorities.
- Plan and conduct our assignments in accordance with the CIPFA Code of Practice on Local Government Internal Audit.
- Fully brief Chief Executive, Deputy Chief Executives and/or Heads of Service, prior to commencing each audit review, concerning the objectives and scope of the work and invite them to identify particular matters where the Council would benefit from an independent evaluation.
- Adopt a risk-based approach.
- Emphasise the positive, as well as areas where improvements can be made. Take account of the culture of Business Areas and Services, available resources and possible constraints when making recommendations.
- Fully discuss findings with Managers and Heads of Service concerned and issue draft reports on major audit assignments, reaching agreement on recommendations and how they can be implemented with responsible officers.
- Include an action plan in all reports, incorporating agreed implementation dates for the recommendations made.
- Review the successful implementation of recommendations.
- Deal with enquiries concerning suspected fraud or malpractice immediately, in consultation with the Council's S151 Officer.
- Work closely with the External Auditor to eliminate any duplication of effort, ensure a cost effective audit process, and minimise the demands on officer time.
- Constantly monitor and communicate standards of good practice.
- Treat all information gathered with the utmost confidentiality.
- Be polite, courteous, helpful and understanding in the approach adopted.
- Commit to the policies of the Council.

4. Service Outputs

For planned work service outputs are:

Detailed reports arising from reviews of the whole system of internal control, financial and otherwise, containing recommendations which help to:

- Development key management, financial and information systems.
- Secure value for money
- Review performance
- Ensure adherence to legislative requirements, management policies and directives
- Ensure compliance with best practice and where relevant CPA requirements
- Safeguard assets
- Ensure completeness and accuracy of records
- Secure the effectiveness, economy and efficiency in the use of resources.
- Ensure the reliability and integrity of information.

For irregularity work service outputs are:

Comprehensive fraud prevention measures and raised awareness of the special responsibility the Council has for maintaining the highest possible standards in its management of public funds. In particular, this involves:

- Monitoring compliance with Standing Orders and Financial Regulations.
- Co-ordinating corporate fraud prevention action.
- Investigating reported irregularities and supporting any Police enquiries.
- Co-ordinating participation in local and national anti-fraud initiatives.
- Providing immediate notification of frauds reported elsewhere together with advice on avoidance measures.

For unplanned and ad-hoc work service outputs are:

- Advice and assistance during the development of current corporate initiatives.
- Other general advice and assistance to officers throughout the Council, regarding best practice, probity issues, systems development and internal control. Areas of best practice are communicated to Members and Service Managers through the issue of reports and notification of work carried out by the Audit Commission, External Audit and other Government Agencies that may help them improve the services they provide.

5. Feedback and Performance Measurement

The opinion of Members, Managers and staff is highly valued as it enables Internal Audit to maintain high standards and quickly respond to changing client needs. Opportunities for feedback are provided through regular meetings with Strategic Managers and Team Leaders and the issuing of Customer Feedback Forms that accompany final audit reports. These forms provide a means for clients to make constructive comments on the services received.

Feedback is also welcomed directly to the Internal Audit Manager regarding any audit work that has been completed, is in progress or is planned. We are also keen to assist where possible with queries regarding internal control issues and react to changes in priorities or additional pieces of work where there are new or increased risks.

Performance Indicators

A suite of performance indicators has been designed by the Internal Audit Manager, and will be reported to Officers and members as part of the Internal Audit Manager's Annual Report. Targets will be reviewed at the end of the financial year and revised where appropriate.

Indicator	Target
Percentage of audit plan delivered in the year	90%
Percentage of Managed Audits delivered in year	100%
Percentage of audits completed within budget	90%
Percentage of audit recommendations accepted	90%
External Audit reliance on Internal Audit	Achieved
Percentage of draft reports issued within 15 days of completion of fieldwork	90%
Percentage of final reports issued within 15 days of issue of draft report	90%
Percentage of customer satisfaction feedback forms scoring Good or Excellent.	90%
Percentage of audit recommendations implemented within agreed timescales.	80%
Cost per productive audit day.	£270

Summary of Audit Opinions

Excellent (1) - A cost effective control system is in place commensurate with the risks facing the activity. Compelling evidence is found to corroborate the conclusion that the control systems are operating as expected.

Good (2) - A system of control is in place that is designed to assist in the achievement of service objectives. Strong evidence is available to support the conclusion that controls are operating as expected.

Satisfactory (3) - A system of control is in place that is designed to assist in the achievement of service objectives although there may be opportunities to improve controls. Some evidence is available to support the conclusion that controls are operating as expected.

Limited (4) - A system of control is in place but omits one or more key elements from its design. Alternatively, the auditor may be unable to find any firm evidence that a system is operating as expected. There is a quantifiable risk that service objectives will not be achieved and/or a serious loss (financial or otherwise) will be suffered by the Council.

None (5) - Key features of internal control are missing from the system. The effect of this is to create a strong likelihood that service objectives will not be achieved and/or a serious loss (financial or otherwise) will be suffered by the Council.