Appendix 2

Internal Audit Section

Strategy for Delivery of the Internal Audit Service

INTERNAL AUDIT STRATEGY

Introduction

1.   This strategy document is a statement of how the County Council's Internal Audit service will be delivered and developed, as per the Terms of Reference for Internal Audit. The Internal Audit service will serve as an assurance function to management and members, providing an independent and objective opinion on the internal control environment. In so doing, Internal Audit will make a positive contribution to strengthening the County Council's overall arrangements for corporate governance.

Service Delivery

2.   Internal Audit work will be carried out in a manner which ensures compliance with the Code of Practice for Internal Audit in Local Government. The overall objective is to ensure that audit work is properly focussed and evidence accumulated throughout the year, in order to provide the assurance required to support the annual Statement on Internal Control (SIC). The remainder of this statement sets out specifically how Internal Audit will approach each element of its work in order to meet this objective.

3.   The Internal Audit service will be delivered internally, through a dedicated in-house team, with a commitment to demonstrating that this represents a cost-effective means of delivering a high quality, professional service. In order to achieve this, Internal Audit will be adequately resourced, with the appropriate range of skills and experience, and supported by effective arrangements for quality assurance. These aspects are addressed in greater detail later in this statement.

Governance

4.   Good governance is seen as increasingly important in the delivery of local government services. In this context the modern-day role of Internal Audit has moved well beyond its traditional financial boundaries, and must be seen to be an integral part of overall corporate governance to remain effective.

5.   The audit plan will therefore include a programme of work aimed at helping to strengthen the County Council's overall governance arrangements. More specifically, this will focus attention on the following areas:

- A sound risk management framework is a core element of good governance. Internal Audit will utilise the risk information emerging from the County Council's risk management arrangements to focus and prioritise the audit plan. It will also assess the mechanisms for identifying, evaluating and managing risks, and work as part of the Corporate Risk Management Group to ensure these are becoming embedded into management processes.

- The profile of internal control has increased with the need to carry out a review at least once a year and publish an annual SIC. The planned audit work throughout the year provides assurance for the SIC through the audit opinion. In addition Internal Audit will work within the SIC Management Group to review the overall assurance gathering process for the SIC, and the actions being taken to address significant control issues previously identified.

- In common with all authorities, the County Council is required to seek to achieve continuous improvement by having regard to the efficiency, effectiveness and economy of its service delivery. In carrying out all its work therefore, Internal Audit will be mindful of the scope for identifying opportunities for improved value for money in the use of resources.

Planning

6.   Internal Audit will carry out a risk-based audit needs assessment, which takes account of information on risks from a variety of sources across the County Council , including risk registers, service plans, and discussions with key officers and members. These information sources help to build up a comprehensive picture of systems and activities which could potentially be included in the audit plan. These will include specific attention to the following:

- Major development projects
- IT-related risk areas
- Areas potentially susceptible to fraud.

7.   An Audit Planning Model will be applied to the risk areas identified, in order to determine the relative priorities for audit. The model assesses factors such as:

- the size of the risk
- the likelihood that the risk will materialise
- the impact of the consequences if the risk does materialise.

8.   From this a draft risk-based audit plan will be prepared for the year ahead. This will identify risk areas where independent audit assurance is required regarding internal controls in operation. These will incorporate those key financial systems on which the County Council relies for its financial management, so that the audit plan will help the County Treasurer discharge his Section 151 responsibility for proper financial administration and management arrangements.

9.   The key financial systems will also be discussed with the Audit Commission at the time of drafting the audit plan, to determine where they will be able to place reliance on Internal Audit work in meeting their responsibilities under the International Standards on Auditing (ISAs).

10.   The draft audit plan will be fully discussed and agreed with key contact officers in all departments, and with the County Treasurer. The Chief Auditor will also meet with the Chief Executive and the Chairman of the Final Accounts and Audit Committee, to take account of their views, before presenting the audit plan to the Committee for its approval.

11.   The audit plan will be timetabled with the agreement of key contact officers, to ensure that audits are carried out at the most appropriate time of the year to maximise benefits and minimise disruption. It will also include an element of time for contingencies, so as to allow flexibility to deal with issues which arise during the course of the year, which cannot reasonably be foreseen.

Audit Assignments and Follow-up

12.   For each assignment in the audit plan, detailed terms of reference will be drafted which clearly identify the risks to be addressed by the audit work, and timescales for reporting. The terms of reference will be discussed and agreed with relevant officers, who will be asked to sign them off before audit work gets underway.

13.   Audit work for each assignment will incorporate the following:

- Reviewing and evaluating the internal controls in relation to each agreed risk area, and designing and carrying out specific audit tests to confirm the operation of those internal controls. In this respect IT facilities will be used as far as possible to maximise the efficiency and effectiveness of testing.

- Identifying weaknesses in either the nature of the internal controls, or in their operation, and formulating recommendations to improve controls and eliminate weaknesses as far as practicable. Recommendations will be fully discussed with relevant officers and an action plan agreed for their implementation.

14.   In addition to individual assignments, Internal Audit will also undertake a regular follow-up process on the implementation of previous audit recommendations. This will track all the agreed recommendations from previous audits to ensure there has been an adequate management response, and that action promised has been taken to implement control improvements. This will ensure that Internal Audit meets a fundamental responsibility to ensure an ongoing concern for action and improvement.

Liaison

15.   The Chief Auditor will hold regular meetings with the County Treasurer or his Deputy to keep them informed of progress against the audit plan during the course of the year, and to discuss matters arising.

16.   Internal Audit will attend all meetings of the Final Accounts and Audit Committee, to keep members informed of progress on audit work, and to offer an audit view or advice on any matter which should require it. The nature of reporting to the Committee is dealt with under the 'Reporting' section later in this statement.

17.   It will also be important to maintain regular contact with the Audit Commission as work is carried out, to keep them informed of progress generally, but in particular to ensure they are aware of Internal Audit work on key financial systems and its impact on meeting their responsibilities under the ISAs. Internal Audit will therefore meet with the Audit Commission before each meeting of the Final Accounts and Audit Committee.

Reporting

18.   A report will be prepared for each individual audit assignment. Each report will give an audit opinion on the internal control environment for the system or activity audited. The opinion will be 'colour-coded' and will fall into one of the following categories:

- **Green** - internal control environment very good, minor low risk issues identified, possibly one or two medium priority recommendations

- **Yellow** - internal control environment good, low and medium risk issues identified, possibly one or two high priority recommendations

- **Orange** - internal control environment satisfactory, some medium and high risk issues identified, which management need to address as soon as possible

- **Red** - internal control environment poor, high risk issues identified with potential for fraud, requiring urgent management attention.

19.   The report will also give prominence to action required by management, and will be issued as a draft to the relevant manager, and also to key contact officers for comment and/or discussion. Following agreement of the draft report, including its recommendations, a final report will be issued. This will be accompanied by an action plan showing clearly who is responsible for implementing each recommendation, and the timescale for implementation. Both the draft and final reports will be issued in accordance with the timetable laid down in the original terms of reference for the audit assignment.

20.   The Chief Auditor will present a progress report against the audit plan to each meeting of the Final Accounts and Audit Committee, including a brief summary of the more significant audit findings to date.

21.   An Internal Audit Annual Report will be prepared and presented to the Final Accounts and Audit Committee at its first meeting following the end of the financial year (31 March). This will include the following:

- Overall performance in delivering the audit plan
- Brief details of the findings and recommendations from each audit, and follow-up work on previous audit recommendations
- An opinion on the internal control environment for each department, and an overall opinion for the County Council.

22.   The departmental opinions and the overall opinion will use the same four categorisations as for individual audits outlined above. They will be informed by an aggregation of the opinions given in respect of each individual audit completed throughout the year. The overall opinion on internal control will serve as an important source of assurance to support the SIC, which the County Council must prepare each year and publish alongside its Final Accounts.

Fraud-related and Investigative Work

23.   By its nature, fraud-related work is unpredictable in terms of its timing and extent. All reported instances will be investigated by Internal Audit in line with the established protocol. Resources will be allocated for this work as far as possible from contingencies built into the audit plan. Where there are conflicting demands on resources, from planned work on the one hand and fraud-related investigations on the other, resources will be allocated on the basis of risk, sensitivity, and other corporate priorities.

Resources and Skills

24.   In order to deliver the audit plan, the appropriate level of resources will be made available to Internal Audit. This will incorporate the necessary mix of qualifications, skills and experience. With the modern-day remit of Internal Audit widening in line with the Code of Practice, and its profile increasing as it assumes a key role within corporate governance, the range of skills and experience will incorporate the following:

- General audit skills in relation to reviewing financial systems
- Internal control in its wider sense in relation to operational areas
- Internal control and governance at the strategic level
- Risk Management
- IT audit
- Audit of major contracts and partnering arrangements
- Major projects and developments.

25.   The resources required by the in-house team to deliver an adequate and effective Internal Audit service, and their respective responsibilities, will be as set out in the Appendix to this statement. This will be kept under regular review in order to ensure that it remains adequate to meet Internal Audit's responsibilities and objectives.

26.   In addition, in accordance with the County Council's commitment to people management and development, Internal Audit will ensure that all its staff receive a full performance appraisal every twelve months, and an interim review at the halfway stage. An important part of this process is to address training and development needs, and to ensure these are met by an appropriate training programme for the in-house team, to enable it to deliver a professional service.

Quality Assurance

27.   An effective framework for quality assurance is important both internally and externally, to ensure the work of Internal Audit complies with the Code of Practice and achieves its objectives. Internal elements of quality assurance will include the following:

- **Continuing Professional Development (CPD):** Many of the Internal Audit team are members of professional bodies, which adopt the principle of continuing professional development. Internal Audit staff will therefore record time spent on relevant CPD activities, and this will be monitored through the appraisal process, to ensure that staff have a means of keeping track of current professional developments.

- **Professional Audit Groups:** A further means of maintaining awareness of current developments is provided through the national County Chief Auditors' Network and the regional West of England Chief Internal Auditors' Group and associated sub-groups. Internal Audit will therefore ensure it is regularly represented at these group meetings.

- **Audit Management Processes:** Internal Audit will employ a systematic working discipline which ensures that day to day management of audit work is effective in order to maintain quality. This will incorporate time budgets for all audit assignments, the use of appropriate audit planning and control software, and regular communication between Internal Audit staff on the progress and direction of assignments.

- **Performance Measures:** Internal Audit will determine and maintain an appropriate range of performance measures, which will be monitored and reported regularly to the Final Accounts and Audit Committee.

28. Quality will also be measured and maintained by means information obtained from the following external sources:

- **Client Feedback:** The views of audit 'clients' will be obtained on various aspects of the quality of Internal Audit work. This will be done at the detailed level for each completed audit assignment, and at the higher level for each client department at the end of the year.

- **Benchmarking:** Internal Audit will benchmark a wide range of its activities against other authorities, through the CIPFA Audit Benchmarking Club.

- **Audit Commission Review:** As the County Council's external auditors, the Audit Commission will review and report upon Internal Audit each year, in terms of whether it meets the Code of Practice requirements and can be relied upon. Internal Audit will seek to ensure that all its work is properly evidenced and recorded, in order to achieve a satisfactory outcome to this annual review.

29. The results obtained from all these sources will be reported regularly to the Final Accounts and Audit Committee, alongside the other performance measures referred to above. Where necessary, these will be supplemented by explanations and proposals for quality improvements.

INTERNAL AUDIT RESOURCES AND RESPONSIBILITIES

Chief Auditor

Overall Policy
- TOR, Strategy, Audit Manual
- Staffing and Training

Governance and Internal Control
- Final Accounts & Audit Committee (Plan, Annual Report etc)
- Risk Management (including CRMG)
- SIC (including SIC Mgt Group)

Principal Auditor	**Principal Auditor (IT)**	**Principal Auditor**
Lead on DCE and DACS audits	Lead on corporate IT audits and projects Lead on IT elements of departmental audits Realising benefits of IT to improve audit working procedures	Lead on ESD and F&IT audits

Shared responsibility for leading on overarching corporate audits which cross departmental boundaries

Senior Auditor

Lead on Schools audits and related themed reviews
Assist Principal Auditor on IT, DCE and DACS audits

Senior Auditor

Lead on CLS audits
Assist Principal Auditor on IT, ESD and F&IT audits

Auditor (x5)

Assist Principal and Senior Auditors on IT, departmental or corporate audits according to operational requirements